Cabinet – 28 May 2019
Agenda Item xx

2018/19 Provisional Finance Outturn Report

INDEX

Section 1 – EXECUTIVE SUMMARY

1.1. Summary

1.1.1. The Authority's audited Statement of Accounts (the Accounts) for 2018/19 will be presented to full Council for discussion and approval on the 25 July 2019. The Accounts are a statutory document which set out the Authority's financial position and performance for the year in a series of formal accounts prepared according to a specific statutory and regulatory framework.

1.1.2. Successive changes to local government accounting practice have made the Accounts a very technical document. As in previous years therefore, this report sets out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is set out on a similar basis to the financial management reports presented to Cabinet throughout the year.

1.1.3. The figures contained in this report are provisional until the completion of the Accounts. In accordance with legislation the draft Accounts will be "certified" by the Chief Finance Officer by 31 May 2019 and the audited Accounts will be approved by full Council on 25 July 2019.

1.1.4. The financial year has seen the Authority continue to manage its finances despite on-going funding reductions and continuing cost pressures in respect of social care services. Despite these challenges the proactive management of the General Fund budget throughout the year has led to a year-end surplus of £1.031m. It is proposed to deal with this surplus by a £1.031m transfer to the Change Reserve. After the final transfer, the General Fund Revenue Account shows spend on budget for 2018/19, with a closing balance on the Strategic Reserve of £14.597m and General Fund balances of £6.804m. Retaining these levels of balances is important for managing the financial resilience of the Authority through 2019/20 and beyond.

1.1.5. School balances have reduced from £3.357m at the start of the financial year to £1.599m at 31 March 2019. Whilst some schools have seen their individual balances increase, the value of individual school deficits overall has increased which contributes to the £1.758m reduction in balances. Overall the position improved from projected overall deficit balances of £4.716m. Further details are contained in Section 5 of this Annex.

1.1.6. The Housing Revenue Account balances have increased from £6.083m to £7.304m, an in-year increase of £1.221m. This change is as a result of an in-year improvement against budget of £3.191m (this represents 1.8% of the gross budget). Further details are given in Section 6 of this Annex**.**

1.1.7. The initial approved Investment Plan for 2018/19 was £84.059m. Variations and reprogramming of £6.097m (credit) were approved by Cabinet during

2018/19 to give a revised Investment Plan of £77.962m. Capital expenditure for the year was £69.359m (89% of the revised plan), a variation of £8.603m (credit). This outturn includes further reprogramming of £8.484m (credit) as shown in Section 7.

1.2. Strategic Management of the Council's Budget

1.2.1. Whilst statutorily the Authority's budget and Accounts must be prepared by individual financial years, the pressures and opportunities that the Authority faces often extend across several accounting years. Decisions taken in one year will be felt in subsequent periods. One of the benefits of the Authority's regular budget monitoring process is that issues can be identified early in the year and action taken to address them. The outcomes of these actions can then inform both budget setting and final accounts preparation. Budget setting, budget management and final accounts can therefore be seen as related parts of a continuous process of financial management by the Authority. This part of the report sets out some of the key strategic issues managed by the Authority during 2018/19.

1.3. General Fund

1.3.1. The budget for 2018/19 was approved by full Council at its meeting of 15 February 2018. The net General Fund revenue budget was set at £154.726m including efficiency savings of £10.143m.

1.3.2. The Monitoring report up to 31 January 2019 projected a pressure of £0.642m and the final position is an underspend of £1.031m.

1.4. Creating a Brighter Future (CBF) Programme

1.4.1. The efficiency programme for 2018/19 included savings of £10.143m and £1.111m of savings targets carried forward from 2017/18, for the delivery of projects/actions included as part of the CBF Programme. The scale of the financial challenge for the year meant that wide ranging efficiencies and service reconfiguration were required to be implemented during 2018/19 leading to £7.596m or 67.5% of the savings targets being achieved. The remaining balance was handled through a range of alternative management activity. The success of which is demonstrated in the outturn. These CBF savings have been monitored as part of the overall financial position of the Authority, and regular updates of progress shared with the Mayor and Cabinet members and also reported to Cabinet as part of the bi-monthly Financial Management reports. Further details of the CBF programme outcomes are detailed in section 3.

1.5. Redundancies

1.5.1. In response to resource reduction and cost pressures the implementation of the CBF programme has resulted in redundancy costs of £0.613m (including schools staff) during 2018/19.

1.6. Treasury Management

1.6.1. There has been a decrease in the level of actual external borrowing (excluding PFI) from £461.155m at 31 March 2018 to £450.146m at 31 March 2019. The level of internal funding remains high at £84.137m at 31 March 2019 (£70.148m at 31 March 2018), subsequently this avoids interest charges. During 2018/19 the sustained approach to maximising the use of internal borrowing, using short term borrowing at lower rates and the impact of reprogramming within the Investment Plan resulted in interest savings of £3.412m in-year.

1.7. Reserves and Outlook

1.7.1. The Council continues to face significant government funding cuts in future years. Combined with cost pressures arising from increased demand for services and unfunded new burdens means that savings of £10.533m are required in 2019/20. This includes £3.550m relating to the full year effect of 2018/19 saving targets, £3.325m of 19/20 saving targets, £2.879m of 2018/19 Procurement and Management efficiencies and £0.779m of 2018/19 residual service efficiency targets. The Medium-Term Financial Plan presented in the January budget report to Cabinet estimated that the level of savings required by 2022/23 would be in the region of £27.181m. The Spending Review is still expected to take place over the summer, leading to an indicative three-year Settlement for 2020/21 to 2022/23. The picture remains unclear as to whether further savings and efficiencies will continue to be required annually for the foreseeable future.

1.7.2. In addition, Government has begun a The Fair Funding Review and, whilst it is correct that the funding formula of Local Government is refreshed and updated, the more significant question has to remain regarding the quantum of funding available to Local Government. In addition to the Fair Funding Review, the Government have advised of their intention to move to 75% Business Rate Retention but uncertainty remains as to how this will form part of the Fair Funding Review.

1.7.3. For 2019/20 North Tyneside will be part of the pooling arrangements for the North of Tyne Combined Authority following the successful bid to be a 75% Business Rate pilot. A key feature of becoming a 75% business rates pilot is that Business Rate income above the current 49%/50% retention arrangements will be pooled across the pilot, and the three local authorities would be regarded as one entity in Business Rates terms.

1.7.4. The Medium Term Financial Plan (MTFP) sets the approach to the redirection of resources in order to deliver the priority-led spending plans and deliver the outcomes shaped by the Our North Tyneside Plan. The Cabinet is aware it must keep under review its medium-term Financial Strategy and four-year Financial Plan, in the context of the 2018-2020 'Our North Tyneside Plan' and known key financial risks.

1.7.5. It has been highlighted previously by the Chief Finance Officer that the Authority has a relatively low level of reserves and the level of uncertainty with regard to the levels of funding for Local Government Finance beyond 2019/20 remains a significant concern. Appendix A sets out in detail the movement on Reserves and Balances and despite some increases the general level of Reserves available to support the Authority's budget remains relatively low.

1.7.6. The Support for Change Reserve has increased to £4.894m following an allocation of £1.031m as part of the outturn. The Strategic Reserve represents 4.03% of the 2019/20 gross budget and just over 9.37% of the 2019/20 net budget, with the General Fund balances added together these represent 5.90% of the 2019/20 gross budget and 13.74% of the 2019/20 net General Fund budget.

1.7.7. The net movement in HRA reserves and balances is a reduction of £1.749m. The HRA reserves have decreased by £2.970m to £19.851m in 2018/19. The use of up to £3.000m of HRA PFI Reserve was approved by Cabinet on 10 September 2018 under the Use of Reserves policy to finance the purchase of new repairs and construction fleet vehicles, as part of the end of the Kier North Tyneside Joint Venture. Within the HRA reserve total over £16m relates to PFI reserves. Included in the overall movement is an increase in Housing Revenue Account balances of £1.221m as set out in Section 6 of this Annex.

1.7.8. School Balances show a reduction of £1.758m as set out in section 5 of this Annex, but as stated previously this is an improvement against the planned deficit balance position of £4.716m.

1.7.9. Overall, 2018/19 was typical of recent years in that several strategic concerns overlay the management of the approved budget. The Council was able to manage these issues through its forward planning process and by pro-active management of in-year issues. Financially that management action was underpinned by close management of spend, and by taking advantage of short term borrowing rates to achieve interest savings.

However, because such strategic pressures are a feature of the current local authority environment there will always be an element of risk as we move forward into each new financial year. The experience of 2018/19, once again reinforces the importance of forward planning, a strong balance sheet, close management of the core budget, a regular monitoring and reporting process and a flexible approach to managing the efficiency programme.

SECTION 2 - GENERAL FUND SUMMARY

2 General Fund Revenue Provisional Outturn

2.1 This section of the report details the provisional outturn figures at 31 March 2019. The Authority's approved net revenue budget of £154.726m is provisionally expected to underspend by £1.031m. This is an improvement of £1.673m on the previous position reported to Cabinet, based on forecasts at January 2019 which showed a pressure of £0.642m. The budget includes £10.143m of budget savings as agreed at full Council on 15 February 2018. Table 1 in paragraph 1.6 below sets out the variation summary across the General Fund.

Accounting Adjustments

2.2 As part of the statutory reporting regulations there is a requirement to ensure that there is a clear audit trail between the figures reported to Cabinet and those published in the Statement of Accounts. The outturn therefore includes a series of year-end accounting adjustments which, whilst having no impact on the final overall position against the budget, provide a link from outturns reported to Cabinet to the published accounts. These adjustments include:

- Adjusting both budget and actual positions for support services. This has no impact on variances;
- Adjusting the service positions for actual (rather than budgeted) capital expenditure items; and
- Adjusting the service positions for the impact of Public Finance Initiatives (PFI) which has reduced the reported costs of the services by £5.754m and has had the opposite impact on the corporate budget lines.

2.4 As these accounting adjustments were not included in the previously reported forecasts presented to Cabinet, the impact of these adjustments within the outturn variance needs to be removed to allow comparison to the last reported forecast at a service level as at January 2019. This is shown in Table 1, in paragraph 1.6 below.

2.5 Table 1 below shows the variance between the outturn to be published in the statement of accounts and the budget and also shows the adjustments required to allow comparison of the provisional outturn for Cabinet to the last reported position.

2.6 Table 1: 2018/19 General Fund Revenue Provisional Outturn as at 31 March 2019

	Budget	Final Accounts Outturn	Variance	Accounting Adjustments	Adjusted Variance for Cabinet	January Forecast Variance for Cabinet	Movement from Last Cabinet Report
Services	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Health, Education, Care and Safeguarding	63.440	67.847	4.407	1.027	**5.434**	5.754	(0.320)
Commissioning and Asset Management	18.772	2.307	(16.465)	16.800	**0.335**	0.390	(0.055)
Environment, Housing and Leisure	40.403	27.028	(13.375)	13.401	**0.026**	0.023	0.003
Chief Executive Office	(0.019)	(0.035)	(0.016)	0.000	**(0.016)**	(0.032)	0.016
Business and Economic Development	1.205	1.463	0.258	0.127	**0.385**	0.368	0.017
Commercial and Business Redesign	1.433	1.777	0.344	0.845	**1.189**	0.779	0.410
Corporate Strategy	0.202	0.444	0.242	0.000	**0.242**	0.164	0.078
Finance	(0.645)	(0.969)	(0.324)	0.031	**(0.293)**	0.451	(0.744)
Human Resources and Organisational Development	(0.130)	(0.109)	0.021	0.000	**0.021**	0.065	(0.044)
Law and Governance	(0.110)	0.221	0.331	0.000	**0.331**	0.296	0.035
Central Items	10.335	33.881	23.546	(32.231)	**(8.685)**	(7.616)	(1.069)
Support Services	19.840	19.840	0.000	0.000	**0.000**	0.000	0.000
Total Authority	**154.726**	**153.585**	**(1.031)**	**0.000**	**(1.031)**	0.642	**(1.673)**

Main Movements From Previous Reported Forecast Variance (January Report)

2.7 Comparing the adjusted outturn variance to the previously reported January forecast outturn shows an overall improvement of £1.673m. The main reasons for these movements are itemised below with more detailed explanations of both the outturns and the changes compared to the January report being contained in section 2 of this report.

Health Education Care and Safeguarding

2.8 There has been an overall improvement of £0.320m since the January report resulting from a reduced cost associated with adoptions and an improved position against staffing budgets within Children's Services. Within Adult Services, increased third party payments were offset by increased client contributions.

Commercial and Business Redesign

2.9 There has been an increase in the outturn pressure within Commercial and Business Redesign of £0.410m since the January report. Of this, £0.292m is due to a realignment of ENGIE contract costs and an increased cost in relation to development work around the Customer Journey Project.

Finance

2.10 The Finance Service saw an overall improvement of £0.744m compared to the January report. This is mainly due to the realignment of ENGIE contract costs referred to in the paragraph above. In addition the Revenues and Benefits Service position improved by £0.366m as a result of a better than anticipated benefits subsidy position and a lower requirement for provision against bad debts.

Central Items

2.11 Central Items has improved by £1.069m since the January report. There has been £0.722m of additional Central Government Funding (s31 Grant) received to compensate for further Business Rate support, such as small business rate relief, which was enhanced in the Chancellor's budget. There have also been additional savings on Pensions out of Revenue (a reduced call on the Superannuation Fund) of £0.103m and a further £0.262m in interest savings partially offset by minor expenditure items.

Other Services

2.12 Other services have been grouped together as individually the movements in outturn variances are not significant. The largest items within the overall worsening of £0.050m was a reduced contribution from reserves compared to the January forecast to support costs in Corporate Strategy associated with the final purchase costs of an analytics tool and additional locum and barrister fees within Law and Governance following a period of staff turnover.

SECTION 3 - DELIVERY OF BUDGET SAVINGS PROPOSALS

3.1 The combined budget savings of £10.143m in 2018/19 approved by full Council in February 2018 brought the total savings the Authority has had to find in the eight years following the 2010 Comprehensive Spending Review (CSR) to £120.076m.

3.2 **Table 2: Year on Year savings since 2010 CSR**

Year	£m
2011/12	16.169
2012/13	16.739
2013/14	12.240
2014/15	16.552
2015/16	14.158
2016/17	15.737
2017/18	18.338
2018/19	10.143
Total Savings	**120.076**

3.3 Although the vast majority of the ambitious 2017/18 savings target of £18.338m were delivered during 2017/18, at the beginning of the year there was £1.111m of savings from 2017/18 that remained to be delivered, taking the overall savings target for 2018/19 to £11.254m. Progress has been tracked during the year against each saving proposal and £7.596m, including mitigating savings, equating to 67.5% of the overall target has been identified as saved during 2018/19 (January, £7.438m representing 66% of the target). Table 3 below shows the delivery by Service;

3.4 **Table 3: Creating a Brighter Future (CBF) savings in 2018/19**

Service	Savings Target £m	Actual Savings Delivered vs Original Plans £m	Other Mitigating Savings £m	Remaining Shortfall March 2019 £m	% of target delivered in 2018/19	Assumed in Forecast at Jan £m
Business & Economic Development	0.121	0.121	0.000	0.000	100%	0.121
Central Items	3.870	0.991	0.000	2.879	26%	0.991
Commercial & Business Redesign	0.060	0.060	0.000	0.000	100%	0.060
Commissioning & Asset Management	0.555	0.511	0.000	0.044	92%	0.511
Corporate Strategy	0.124	0.124	0.000	0.000	100%	0.124
Environment, Housing & Leisure	1.158	1.158	0.000	0.000	100%	1.158
Finance	0.305	0.155	0.150	0.000	100%	0.155
Health, Education, Care and Safeguarding (HECS)	4.920	3.830	0.355	0.735	85%	4.185
HR & Organisational Development	0.025	0.025	0.000	0.000	100%	0.025
Law & Governance	0.116	0.101	0.015	0.000	87%	0.108
Total savings	**11.254**	**7.076**	**0.520**	**3.658**	**67%**	**7.438**

3.5 Throughout the year, a prudent approach was taken in relation to efficiency savings which were only reported as achieved in the forecast position when the impact could be seen flowing into the financial ledger. The governance structure of the CBF programme included separate monthly reviews of progress by the Senior Leadership Team and the Deputy Mayor. In addition, in-year finance and performance progress meetings were held between officers and Cabinet Members to consider progress and actions being taken to deliver savings. The main areas of pressure in relation to delivery of savings targets in 2018/19 were the cross-cutting procurement and management savings shown within Central Items and savings related to care costs within HECS. The remaining balance was handled through a range of alternative management activity. The success of which is demonstrated in the outturn.

<u>Central Items</u>

3.6 As anticipated in the reported position at January, within Central Items the year has ended with £2.879m of savings targets yet to be delivered which will be carried forward into 2019/20. These are the cross-cutting targets for Procurement Savings under the Maximising Resources Business Case (£1.592m) and Management Savings under Fit for Purpose – How we are Organised (£1.287m).

3.7 In relation to the Procurement target of £2.000m, a total of £0.408m was achieved in 2018/19. Investigations continue into a range of other proposals in relation to their potential to deliver savings in 2019/20. In October 2018, Cabinet made the decision to return the Procurement Service back to direct Council control and commercial negotiations continue with our partner ENGIE.

3.8 The position for management savings also remains unchanged from the report at January, however Heads of Service continue to develop a range of plans to address the remaining balance to be achieved. These plans include consideration of the opportunities arising from devolution and regional joint working in regard to the provision of children's social care services, consideration of the arrangements in place to manage our major contracts and delivery of our transformation and ICT requirements. The delivery of these plans will continue into 2019/20.

In both procurement and management terms significant work has been done; in particular as part of the arrangements at the end of the Kier North Tyneside Joint Venture. While major savings were made, much of the benefit was felt in the Housing Revenue Account.

Commissioning and Asset Management

3.9 The Service has made good progress and delivered 92% of its target in 2018/19, however £0.044m remains to be delivered. Work continues into 2019/20 to look at options to at least secure the remaining balance.

Environment, Housing and Leisure

3.10 The Service can confirm, as previously reported, that it has delivered all of its £1.158m target.

Finance

3.11 The target relating to changes to the Customer Services operating model of £0.150m has been achieved via the one-off application of a Pension Cap and Collar payment. Discussions are on-going with our partner ENGIE to implement required changes and deliver the savings on a sustainable basis whilst maintaining the level of service our customers expect and deserve. Alternate options to meet this target were actively explored during the year and mitigating savings have been achieved in 2018/19 through vacancy management and the management of the contract with ENGIE.

Health Education, Care and Safeguarding

3.12 In line with all of Local Government, social care continues to be the area of greatest financial challenge and highest risk. The Service is forecasting to deliver £4.185m amounting to 85% of its targets. This is unchanged from the January report. Projects around Public Health contracts, reductions in block contracts and staffing restructures in Integrated Services are all complete.

3.13 The target of £1.713m savings relating to achieving income within the People Wellbeing Services Business Case was achieved by the delivery of additional income relating to the Troubled Families Programme in addition to a grant for the Partners in Practice work and for work associated with the Alternative Delivery Model (ADM) project.

3.14 However, an amount of £0.300m relating to banding of care home fees, is not yet achieved and will be carried forward into 2019/20. This resulted from significant challenge from the care providers in negotiating the 2018/19 fee increase. An agreement was ultimately reached with care home providers which has allowed detailed work to review bandings of care homes to commence, taking into account Care Quality Commission (CQC) ratings with the intention of delivering savings in 2019/20.

3.15 The 2017/18 savings targets relating to HECS have been subsumed within the normal budget monitoring processes. In relation to the Children with Disabilities target, work has been on-going to develop a revised plan to achieve these savings. Savings of £0.013m were achieved by generating additional income from providing a residential assessment place at Riverdale to a neighbouring authority and an additional in-year mitigating contribution of £0.200m was secured. The service continues to review alternative ways of permanently achieving the full target of £0.350m in 2019/20. In addition there are £0.244m of savings against placement costs in relation to Looked After Children which have not been yet achieved and will be carried forward to 2019/20.

3.16 Throughout 2018/19, the service has taken a prudent view around savings delivered against care provision and its related income as these are delivered over the course of the year by on-going robust review and management actions rather than as a one-off activity with a discrete start and end date as in, for example, a staffing restructure. The project around Customer Demand Pathway is estimated to have achieved £0.100m of the £0.200m target. There have been challenges during the year in separately identifying the impact of actions to manage demand from the natural changes in needs presented by individual clients. The projects on Direct Payments and Client Charging gained momentum following policy decisions taken by Cabinet in October 2018 and these targets are now confirmed as achieved in 2018/19. The project on Health Funding has achieved the target of £0.400m from increased s117 income relating to mental health aftercare and increased levels of Continuing Healthcare, following reviews of eligible clients with an over achievement of £0.155m partially mitigating in-year delays in achievement of targets.

SECTION 4 – SERVICE COMMENTARIES

4.1 Members provided robust challenge to Services throughout 2018/19 to support effective financial management. Meetings took place in July, October/November and January with officers, the Cabinet Member for Finance and Resources, the Deputy Mayor and relevant Cabinet Members to discuss the in-year finance and performance position. Heads of Service and their senior teams attended to discuss plans in progress to mitigate any pressures.

4.2 Health, Education, Care & Safeguarding (HECS)

4.2.1 HECS is forecasting a pressure against its £63.440m net controllable expenditure budget of £5.434m representing an overall improvement of £0.320m since the January report. This forecast position excludes the application of contingency budgets set aside in Central Items for demand-led pressures in Adult Services of £1.800m and within Children's Services of £2.616m.

4.2.2 **Table 4: Financial Summary for HECS**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Corporate Parenting & Placements	13.953	17.533	3.580	3.641
Early Help and Vulnerable Families	2.130	2.049	(0.081)	(0.077)
Employment and Skills	0.601	0.524	(0.077)	(0.075)
Integrated Disability & Additional Needs Service	1.994	2.341	0.347	0.474
School Improvement	0.050	(0.080)	(0.130)	(0.083)
Wellbeing, Governance & Transformation	2.128	1.768	(0.360)	(0.328)
Disability & Mental Health	28.275	29.658	1.383	1.486
Wellbeing & Assessment	11.425	12.837	1.412	1.180
Integrated Services	2.430	1.973	(0.457)	(0.330)
Business Assurance	0.435	0.252	(0.183)	(0.134)
Public Health	0.019	0.019	0.000	0.000
Total HECS	**63.440**	**68.874**	**5.434**	**5.754**

Main budget pressures across HECS

4.2.3 In addition to its normal complex budget management, during 2018/19, the service has continued to deal with a combination of demand-led pressures and national policy changes. There have been upward pressures on care providers' fees largely resulting from the National Living Wage increase in April 2018 and reduced income from the NHS particularly in relation to their contribution for Mental Health Resettlement costs.

4.2.4 The main factor behind the significant pressure during the year was third party payments in relation to fees for care homes and community-based packages for adults. This was foreseen and, as part of the 2018/19 budget setting process, contingencies were created and these continue to be held centrally and remain in place for 2019/20. In addition, there continued to be significant pressure within Corporate Parenting and Placements in relation to care provision for Looked After Children (LAC) and Care Leavers. This is combined with the on-going pressures in the workforce arising from staff retention and recruitment costs. As indicated in section 2, the service made significant progress in delivering another demanding set of savings projects but the remaining total of £0.735m, which are targets not yet achieved, have contributed to the overall pressure within the provisional outturn.

The main factors contributing to the pressure in the provisional outturn are shown in the table below;

4.2.5 **Table 5: Summary of Factors Driving the Pressure within HECS**

Sub-service	Savings yet to be delivered £m	Demand Pressures £m	CCG Income £m	Grants and client income £m	Staff £m	Other £m	Total £m
Adults	0.354	4.270	0.466	(2.416)	(0.355)	(0.524)	1.795
Children	0.381	3.231	0.070	0.000	0.180	(0.223)	3.639
Total	**0.735**	**7.501**	**0.536**	**(2.416)**	**(0.175)**	**(0.747)**	**5.434**

Adult Services

4.2.6 In Adult Services there was a pressure of £1.795m which has reduced by £0.079m since the last report at January. Within this position there has been an increase in third party payment costs which has been offset by an increase in income. The position includes the Winter Pressures Grant of £1.031m but excludes a contingency budget of £1.800m which was set aside during budget setting to mitigate the risk of third party payment pressures. This contingency budget is shown in Central Items.

4.2.7 The pressure of £1.795m predominantly relates to this rising complexity of demand foreseen by Cabinet. In addition, there are £0.354m of CBF efficiency targets which have not been delivered in 2018/19 and will need further action to fully deliver these savings in 2019/20. There is a remaining pressure of £0.466m from CCG income around the s256 mental health resettlement agreement. This latter issue was recognised during the budget setting process for 2019/20 and corrected through a budget growth item.

4.2.8 In common with most local authorities, and in line with the national picture, North Tyneside has seen costs within adult social care continue to rise. Although the number of adults supported remains relatively stable, their individual needs have increased due to living longer with multiple complex conditions. Supporting those needs requires more intensive packages of care which are more expensive to provide. In addition to older people, younger adults with learning disabilities and physical disabilities are also living longer, often with multiple complex issues.

4.2.9 In order to manage this demand as effectively as possible and ensure that the most intensive services are targeted at those in the greatest need, the service has been going through a period of transformation to embed an asset-based approach that focuses on enhancing an individual's own strengths and informal support networks to maximise their independence. This has had the impact of containing the overall size of the population in receipt of services with a cost to the Authority, but the average cost of those services has increased due to the increased average complexity of the needs of those clients.

4.2.10 Demand-led pressures (excluding those which form part of savings targets as yet to be achieved as outlined in 2.12 to 2.16) total £4.270m above budget which is an increase of £0.591m since the January report. These are analysed into the following service types;

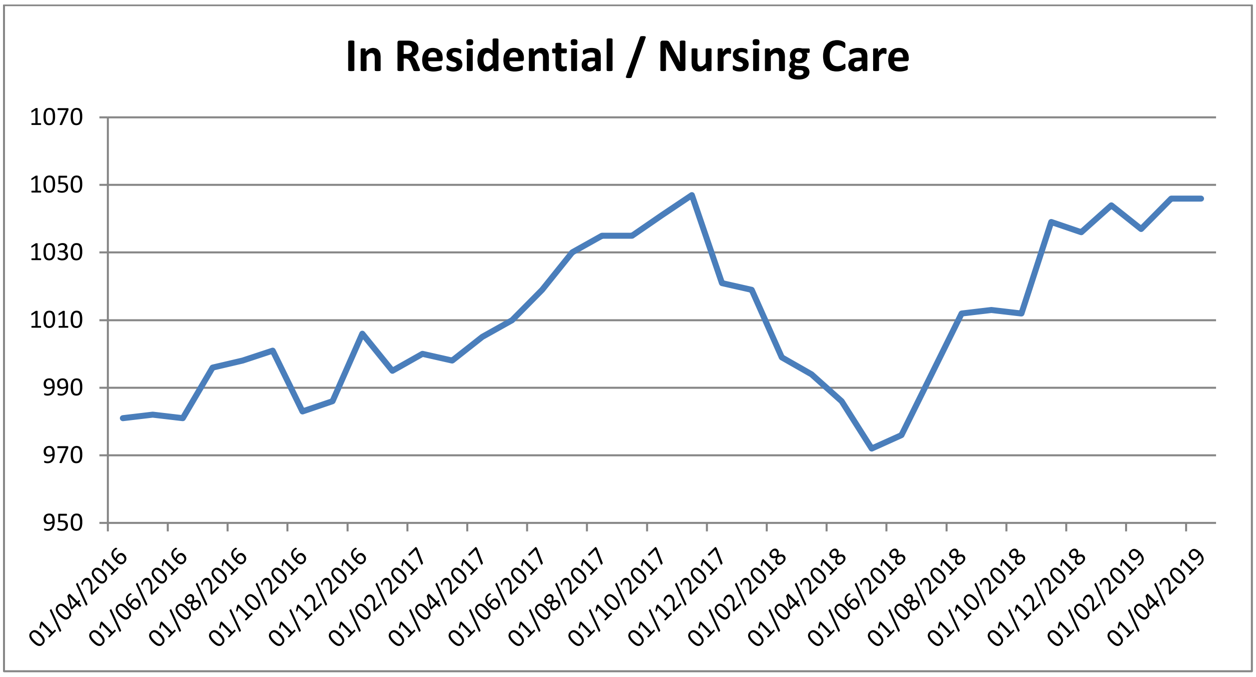
Table 6: Analysis of Adult Services Care Provision Pressure by Service Type

Type of Service	Demand-led Pressure March £m	Demand-led Pressure January £m
Residential and Nursing care	2.234	1.931
Homecare and Extra Care	1.376	1.078
Other Community Based Care	0.660	0.670
Total	**4.270**	**3.679**

Residential and Nursing Care

4.2.11 The first quarter of 2018/19 showed a falling trend in the number of placements mainly in relation to reducing the numbers of short-term placements by effective alternative intervention. However, the service saw an increase in demand in July and August which continued through the autumn and winter and has not yet shown any sustained reduction. The number of clients placed at November 2017 was 1,050 which had dropped to 971 at the end of June 2018. The numbers rose to 1036 in December 2018 and ended the year at 1046. The Service is continuing to carefully monitor levels of placements and is reviewing all proposed placements to appropriately challenge each decision.

4.2.12 **Chart 1: Trend of numbers of Clients in Residential and Nursing Care**

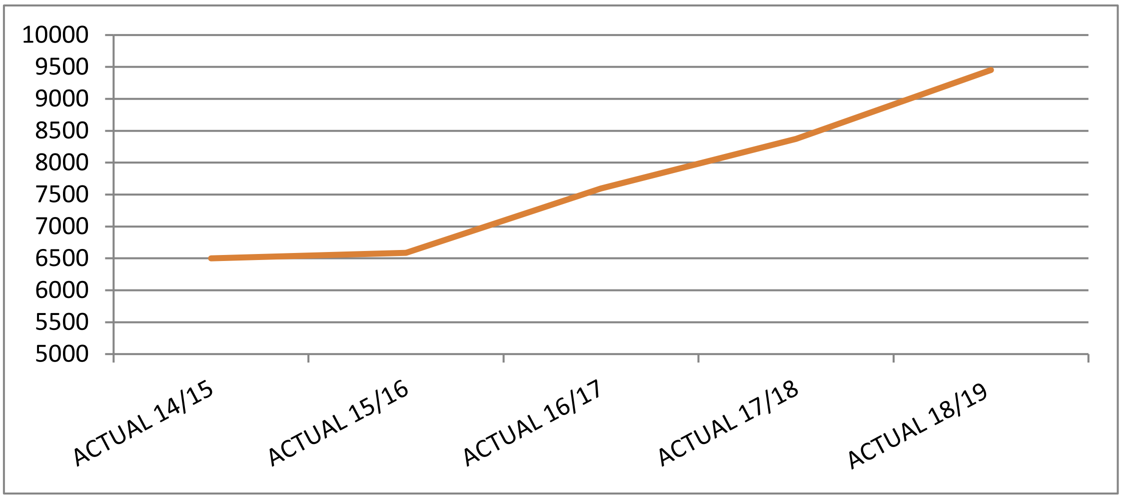


4.2.13 Residential and nursing placement forecasts are showing a pressure of £2.234m which has increased by £0.303m from the January position. This increase is mainly due to the continued increase in admissions outlined in paragraph 4.2.11 above in addition to backdated payments relating to the fee increase for 2018/19. The Service is proactively working to achieve further reductions in the level of residential and nursing care into 2019/20 as alternative forms of provision of services are identified for short-term placements. Services such as reablement, community based intermediate care and extra care are being deployed effectively to reduce admissions to long term residential care. The service is undertaking a focused review of all short-term placements with support from colleagues from sheltered accommodation and with a view to maximising the appropriate use of assistive technology to identify exit plans for those people needing to move on from short-term residential placements. This is a demand led service however, facing demographic pressures of an increasingly aging population.

<u>Homecare and Extra Care</u>

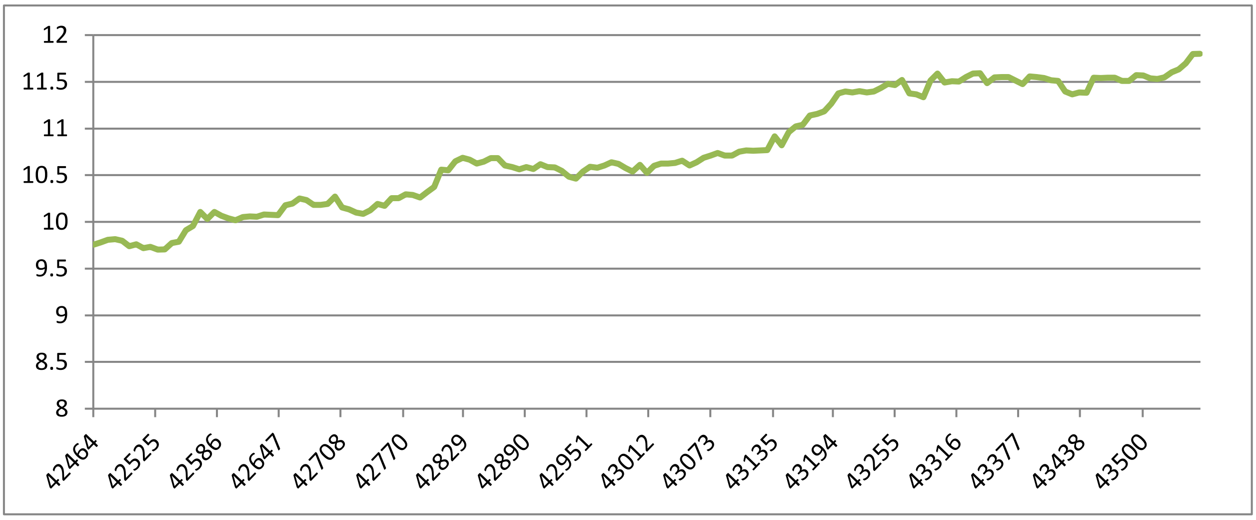
4.2.14 The cost of homecare and extra care has also risen since the last report with the budget pressure increasing by £0.298m to £1.376m. As reported during 2017/18 and 2018/19, the Authority, in line with the national picture, has seen an increase in the average cost of homecare as more intense support for an aging population results in higher average package costs. This is shown in chart 2 below.

4.2.15 **Chart 2: Trend in Annual Cost per Client of Homecare/Extra Care Services**



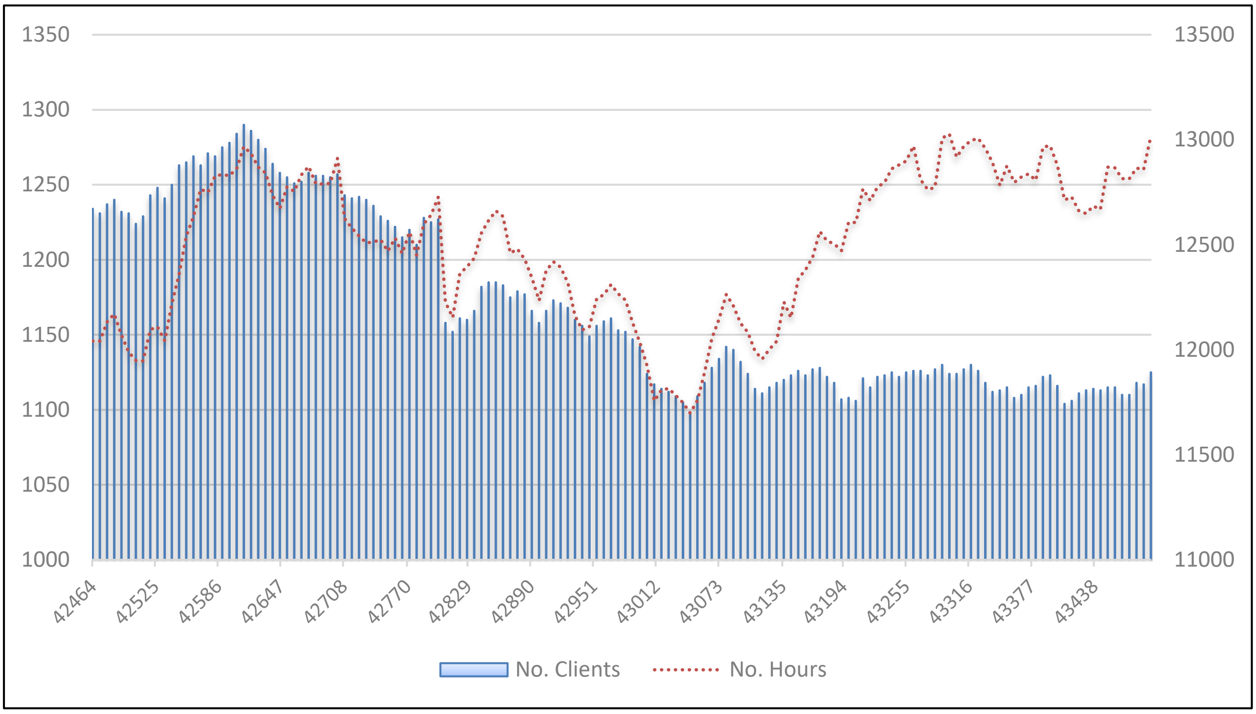
4.2.16 The number of hours provided per client has increased by 24% since April 2015 from 9.48 hours on average to 11.80 hours in March 2019, indicating a significant increase in the levels of need which are now being supported in the community rather than in a residential setting. This level has increased during 2018/19 from 11.3 hours to 11.8 hours (4.4%). The overall number of hours delivered has increased during 2018/19 from 12,472 per week at the beginning of the year to 13,200 at the end of the year, a rise of 5.8%.

4.2.17 **Chart 3: Average number of hours provided per client**



4.2.18 As described in 4.2.9, the Service is working hard to continue embedding the asset-based approach by remodelling how customers access the service. Chart 4 below clearly shows how the service has transformed to support a smaller number of clients with higher needs resulting in an overall increase in the number of hours provided.

4.2.19 **Chart 4: Number of Clients Supported and Number of Hours Provided - Homecare**



<u>CCG Income</u>

4.2.20 The pressure of £0.466m (increased by £0.075m since the January report) relates to reduced Mental Health Resettlement income after agreement was reached with the CCG on future funding for infrastructure and placement costs (£0.667m) partially offset by recharges for clients with Mental Health Aftercare (s.117) services and clients with a jointly funded package. The service continues to carefully review all clients with s.117 eligibility where the CCG has undertaken to fund 50% of all mental health aftercare support packages and this has resulted in increasing trend of recharges to the CCG from £4.263m in 2017/18 to an outturn of £4.724m in 2018/19. Recharges for jointly funded packages of care however have fallen from £2.440m in 2017/18 to £1.680m in 2018/19. In relation to jointly funded care, the Authority is working collaboratively with the CCG on a case by case basis where it is identified that a client has significant health needs. However, if a client has not been assessed as fully meeting the threshold for continuing healthcare, there has been an absence of clear statutory guidelines outlining the CCG's responsibility. New national guidance around jointly funded cases was published in October 2018 with revised national tools to support the assessment of continuing healthcare and the Authority is continuing to work through these issues with the CCG.

Other Community Based Care

4.2.21 This category is comprised of supported living, individual service funds, direct payments and day care. The pressure has reduced by £0.010m since the January report.

Other

4.2.22 The pressure in placement costs and CCG income is being partially mitigated by the Winter Pressures Grant (£1.031m) and client contributions over budgeted levels of income (£1.385m). The budget surplus on client contributions has increased by £0.566m since the last report partially resulting from the changes to policy introduced in January 2019 following the Cabinet decision in October 2018 and a strong recovery of deferred payments income at the end of the year.

There are also underspends in staffing of £0.355m and other areas totalling £0.524m. The latter is comprised mainly of previously unallocated transformation budgets within Wellbeing, Governance and Transformation and resources that have become available following successful changes adopted in Integrated Services to manage costs down particularly in relation to client transport.

Children's Services

4.2.23 In Children's Services the overall pressure of £3.639m has reduced by £0.241m from the January position of £3.880m. The improvement covers a range of different areas; reduced staffing pressure of £0.092m mainly within Integrated Disability and Additional Needs as vacancies have been held across the service wherever possible, an improved income position within School Improvement (£0.047m) with reduced expenditure and improved income in relation to adoptions making up the majority of the remaining improvement. Costs within Corporate Parenting and Placements formed the main pressures in 2018/19 across Children's Services on-going demand related placement pressures ending the year at £3.231m overspent. This issue was foreseen by Cabinet and backed by £2.616m of contingencies held centrally. In addition, there are £0.381m of, as yet, not fully delivered CBF efficiency targets with the balance made up mainly of staffing pressures.

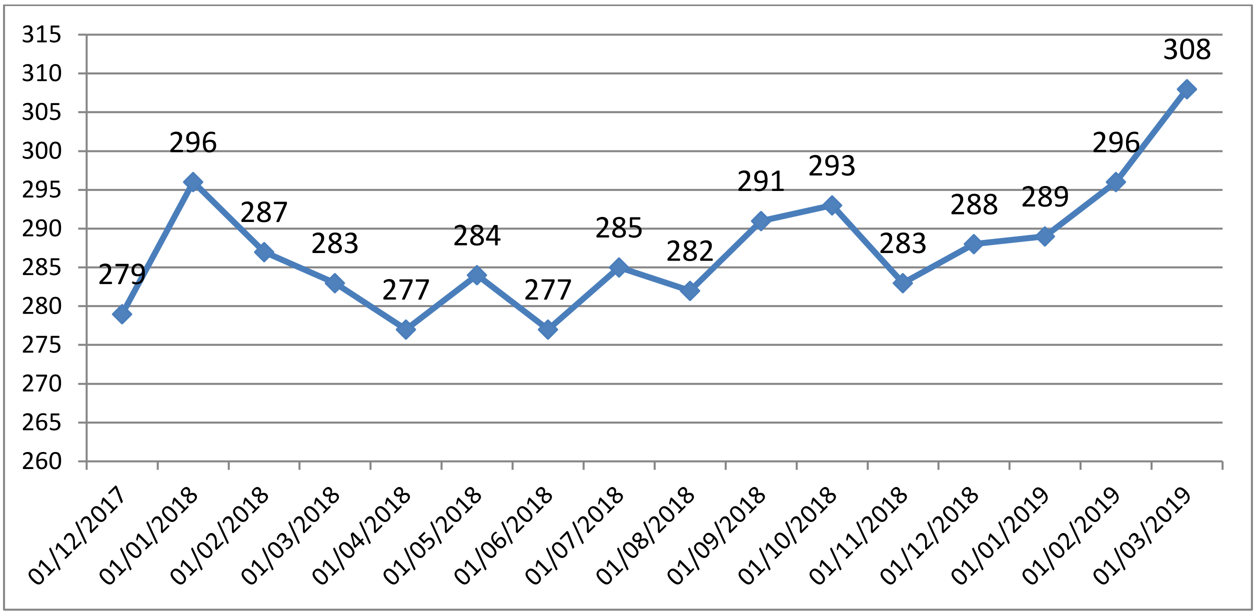
4.2.24 A breakdown of the total of demand led pressures of £3.231m is shown below;

Table 7: Analysis of Demand Led Pressures in Children's Services by Type

Type of Service	**Demand-led Pressure Mar £m**	**Demand-led Pressure Jan £m**
Placement costs for LAC	2.322	2.169
Costs relating to non LAC	0.807	0.926
Leaving Care costs	0.014	0.063
Management and legal fees	0.088	0.045
Total	**3.231**	**3.203**

4.2.25 The main pressure continues to be in relation to placement costs for looked after children totalling £2.322m which is showing an increase of £0.153m since the January report. Over recent years, there has been an increase nationally in demand for children's residential placements but with no corresponding increase in central government funded provision. In North Tyneside, the trend in numbers of Looked After Children has reflected the increases felt nationally and despite all management action to manage demand in this volatile area, the final month of the year has shown a further increase to 308 children.

4.2.26 **Chart 5: Looked After Children numbers at each month end**



4.2.27 In addition to this rise in overall numbers of LAC, placement mix also continues to change. Placements for adolescents (particularly males) with a combination of risks including aggressive behaviour, offending, substance use and sexualised behaviour are increasingly difficult to source. This has resulted in the use of more costly bespoke individual placements, where it is not suitable to place young people in group environments. This is demonstrated in the table below where the main pressure results from residential placements which, in terms of total bed nights, represents only 7% of provision but is very costly amounting to 41% of the overall placement cost. The average cost of a residential care placement has increased to £0.390m. This is very volatile and is dependent on the individual needs of the cohort of children and young people in externally provided residential placements at a point in time.

4.2.28 **Table 8: Forecast cost, forecast variance, average placement cost and placement mix**

Placement Type	18/19 Forecast Variance	Average Annual Placement cost £m	18/19 Bed nights	Placement Mix	No. LAC at Jan 19
External Residential Care	1.559	0.390	7,366	7%	22
External Fostering	0.289	0.040	9,701	9%	23
In-House Fostering Service	0.380	0.018	76,076	69%	218
External Supported Accommodation	0.161	0.135	1,349	1%	11
Other*	(0.067)	various	15,146	14%	34
Total	**2.322**		**109,638**	**100%**	**308**

*Other includes Placed for Adoption, Placed with Parents/Parental Responsibility and NTC Children's Homes.

4.2.29 The service has been successful in reducing the use of externally provided supported accommodation, which is the next most costly form of provision after residential care. This has been achieved by making full use of the Authority's in house provision jointly working with the housing team and supporting young people who have been involved in risk taking behaviour with stable and resilient staff teams. This has allowed the placement of young people within internal services that may otherwise have required an external placement at significant additional cost.

4.2.30 Pressures relating to other placements total £0.807m which has reduced from the January report of £0.926m mainly as a result of increased income and reduced expenditure in relation to adoptions. The remaining pressure consists mainly of Special Guardianship Order payments and Cabinet will be aware of the increases in costs for these placements after the revised Council Policy was introduced in 2018. Part of the contingency budget of £2.616m held in Central Items was created to mitigate this risk.

Staffing pressures

4.2.31 Cabinet are aware of the particular challenges faced across the children's social care sector nationally and this has led to a net pressure on staffing costs of £0.180m mainly due to the need to use agency workers earlier in the financial year and market supplement payments. This pressure has reduced by £0.092m since the January report due to the holding of vacancies wherever feasible to mitigate the staffing pressures overall. At the time of reporting no agency staff are currently required and case loads are in line with good practice.

Other

4.2.32 There is a net underspend of £0.223m in other areas which has improved by £0.177m since the January report. This relates predominantly to increased School

Improvement income (£0.044m), a contribution towards a post in the Multi Agency Safeguarding Hub (£0.055m) and reduced commissioned services costs in Integrated Disability and Additional Needs (£0.035m) with the remainder being a number of small improvements across the service.

4.3 Commissioning and Asset Management

4.3.1 Commissioning and Asset Management is forecasting a pressure of £0.335m as set out in table 9 below. This compares to the January position of £0.390m.

4.3.2 **Table 9: Commissioning and Asset Management outturn variation**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
School Funding & Statutory Staff Costs	2.252	2.146	(0.106)	(0.045)
Commissioning Service	0.405	0.379	(0.026)	0.000
Child Protection Independent Assurance and Review	0.663	0.674	0.011	0.016
Facilities and Fair Access	0.087	0.309	0.222	0.125
Community & Voluntary Sector Liaison	0.438	0.445	0.007	0.000
Strategic Property and Investment	13.448	13.520	0.072	0.045
High Needs Special Educational Needs	0.000	0.000	0.000	0.000
Property	1.363	1.534	0.171	0.249
Commissioning & Investment Management & Support	0.152	0.148	(0.004)	0.000
Procurement	(0.036)	(0.048)	(0.012)	0.000
Total Commissioning & Asset Management	**18.772**	**19.107**	**0.335**	**0.390**

4.3.3 The largest area of pressure with Commissioning and Asset Management is Facilities and Fair Access which ended the year with an overspend of £0.222m, an increase of £0.097m since the January report. The pressure in Catering Services has been finalised as £0.084m and results mainly from inflationary pressures within food costs. There are also inflationary pressures in Cleaning of £0.096m and demand led issues within Home to School Transport of £0.074m partially offset by £0.032m of underspends, mainly from staffing.

4.3.4 Within Property, there has been an improvement of £0.078m due to lower than forecasted costs within the managed repairs and maintenance budget across public buildings however a residual pressure of £0.106m remains net of energy management. Costs of preventing and managing vandalism relating to the Sir G.B. Hunter Memorial Hospital vacated by the NHS in 2018/19 have left the Authority with a pressure of £0.106m during the year. Plans are in place to manage the building on site during 2019/20.

4.3.5 There are staffing pressures affecting Strategic Property and Investment where a savings target of £0.044m relating to management savings remains to be achieved. The service is continuing to review required staffing resources against the Authority's commitments and priorities and is also looking at alternative sources of funding to at least secure this remaining balance. The largest item within the remaining pressure is a contribution to costs of the community wing at Burradon Community Primary School.

4.3.6 The position has been supported by an increased underspend in School Funding and Statutory Staff costs resulting from lower than anticipated costs associated with teachers' early retirement.

4.4 Environment, Housing & Leisure

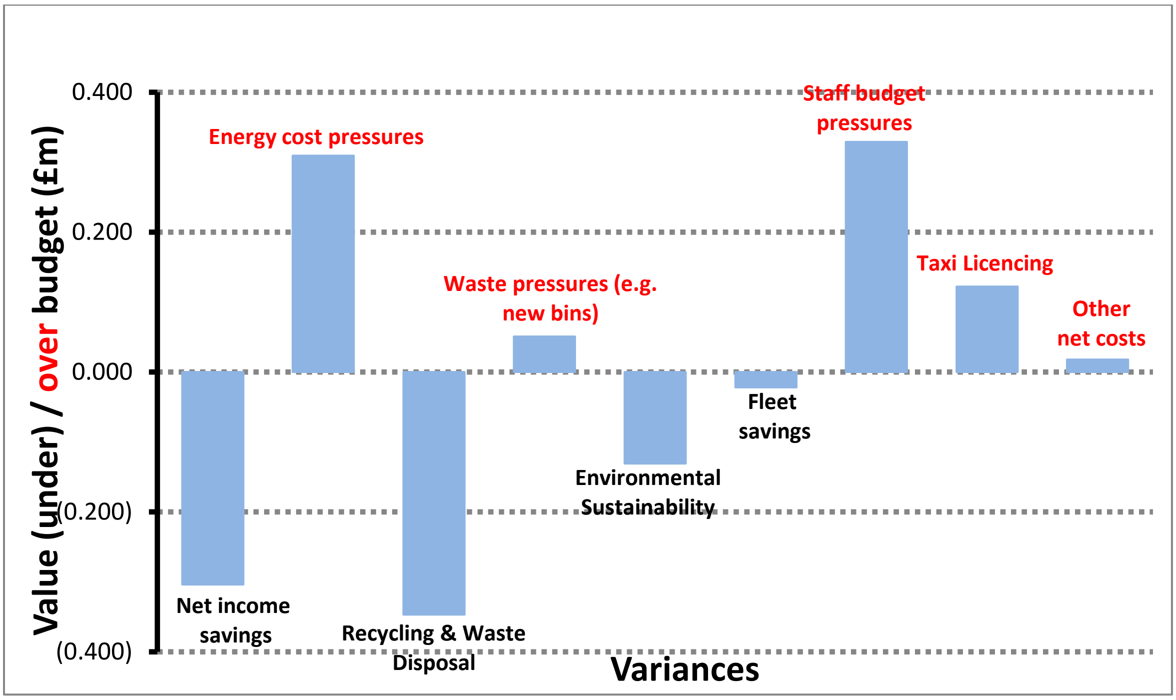
4.4.1 The Environment, Housing and Leisure Service is reporting a pressure of £0.026m against the £40.400m budget, as set out in Table 10 below. The underlying forecast position has changed slightly by £0.003m from the last reported position of £0.023m pressure at January.

4.4.2 **Table 10: Outturn Variation in Environment Housing & Leisure to budget**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Sport & Leisure	3.113	3.404	0.291	0.093
Cultural Services	6.702	6.702	0.000	0.088
Security & Community Safety	0.176	0.230	0.054	0.062
Fleet Management	0.586	0.564	(0.022)	(0.130)
Waste Strategy	11.162	10.854	(0.308)	(0.306)
Local Environmental Services	7.049	7.006	(0.043)	0.099
Head of Service and Resilience	0.110	0.104	(0.006)	0.023
Street Lighting PFI	4.294	4.294	0.000	0.000
Consumer Protection & Building Control	0.838	0.928	0.090	0.096
Transport and Highways	5.365	5.338	(0.027)	0.013
Planning	0.115	0.121	0.006	0.000
General Fund Housing	0.893	0.884	(0.009)	(0.015)
Total Environment, Housing and Leisure	**40.403**	**40.429**	**0.026**	**0.023**

4.4.3 Although the underlying position has not changed significantly since the last reported forecast, some areas of pressure persist and are offset by increased income or expenditure reductions elsewhere. The largest overall remaining pressures are staffing issues of £0.329m across the service and premises-related energy and water pressures of £0.310m. These pressures are offset by increased net income of £0.304m, plus cost savings in waste (£0.427m) and fleet (£0.022m). In addition, there is a pressure in taxi licencing of £0.122m and there are a range of other miscellaneous operational savings and costs across the service areas described in the paragraphs below amounting to £0.018m.

4.4.4 **Chart 6: EHL Underlying Pressures and Savings 2018/19**



4.4.5 The main area of the underlying improvement in the position since January is in relation to Street Environment. Cost reductions within Grounds Maintenance of £0.241m, have combined with cost reductions of £0.102m within Waste to offset a reduction of income of £0.275m across Taxi Licencing, Sport & Leisure, Security and Bereavement. There are additional net movements of £0.071m, covering additional costs for fleet and commercial updates amongst other, smaller movements.

Sport & Leisure

4.4.6 Sport & Leisure has shown an improved position on income of £0.634m in 2018/19. Whilst this is a reduction from the previous expected improvement by £0.199m, it reflects the impacts of both the changes to VAT rules as well as marketing to improve the take-up of gym memberships. Of the £0.634m, £0.400m has been moved to Central Items as it represents the VAT element of the increase. Sport & Leisure have reported the remaining £0.234m income surplus against budget, which is mainly due to increased take-up in gym membership. There is a pressure of £0.244m around staffing costs which is mainly caused by the need to cover shifts and back-fill for sickness.

4.4.7 The balance of the position is made up of operational expenditure pressures the largest of which are premises costs of £0.167m within the service area relating to energy and water costs, in addition to supplies and services costs of £0.115m. This leaves Sport & Leisure overall showing a net pressure of £0.292m.

Cultural Services

4.4.8 Whilst Cultural Services are showing an overall break-even, there are historical pressures due to energy pressures and income shortfalls, plus a Business Rates pressure of £0.125m which is being offset in 2018/19 by an in-year one-off rates rebate in relation to Segedunum Museum. The net saving is mainly caused by an increased profit share (compared to previous years) from Whitley Bay Playhouse of £0.055m, plus some smaller operational savings.

Security & Community Safety

4.4.9 The service ended the year with a net pressure of £0.054m, which is a small improvement since January. The pressure was due to historical and challenging income targets, though the service mitigated their impact by removing staff posts and other operational costs where possible.

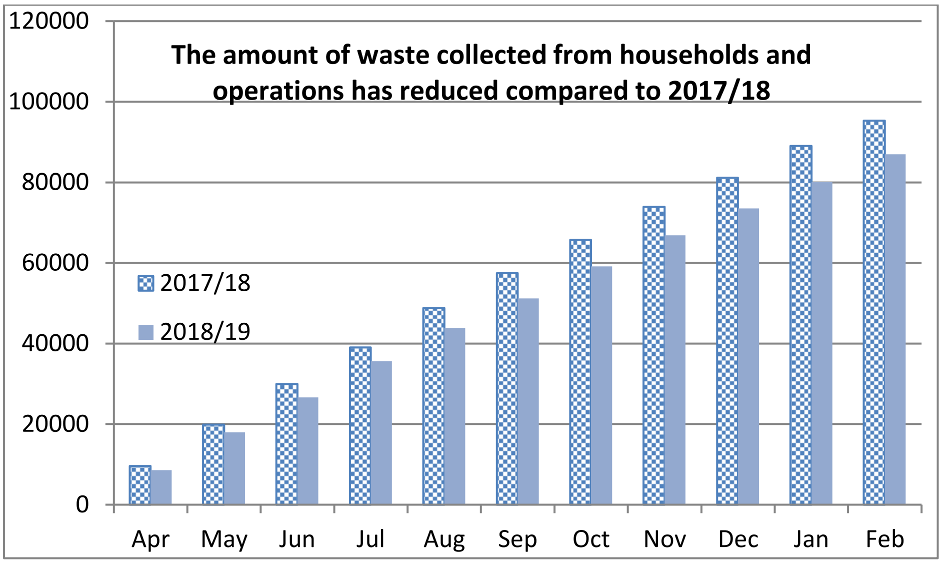
Fleet Services/Facilities Management

4.4.10 The Fleet Services and Facilities Management Service ended the year with marginal saving against budget of £0.022m. The additional cost of financing new vehicles, whilst increasing during the year, continued to be more than offset by the associated reduction in servicing and maintenance costs. In addition, the service area has benefitted from reduced fuel costs associated with more efficient vehicles.

Waste Strategy

4.4.11 Waste Strategy has shown a final underspend for 2018/19 of £0.308m, a small improvement from January's reported position. The Service has absorbed the additional costs for the first year of introducing the alternate weekly collections including the provision of new bins and the expansion of the garden waste collection service within the overall budget set for waste without the need to use the contingency reserve established to cover these costs.

4.4.12 **Chart 7: Overall Waste Tonnage – Comparison to 2017/18**

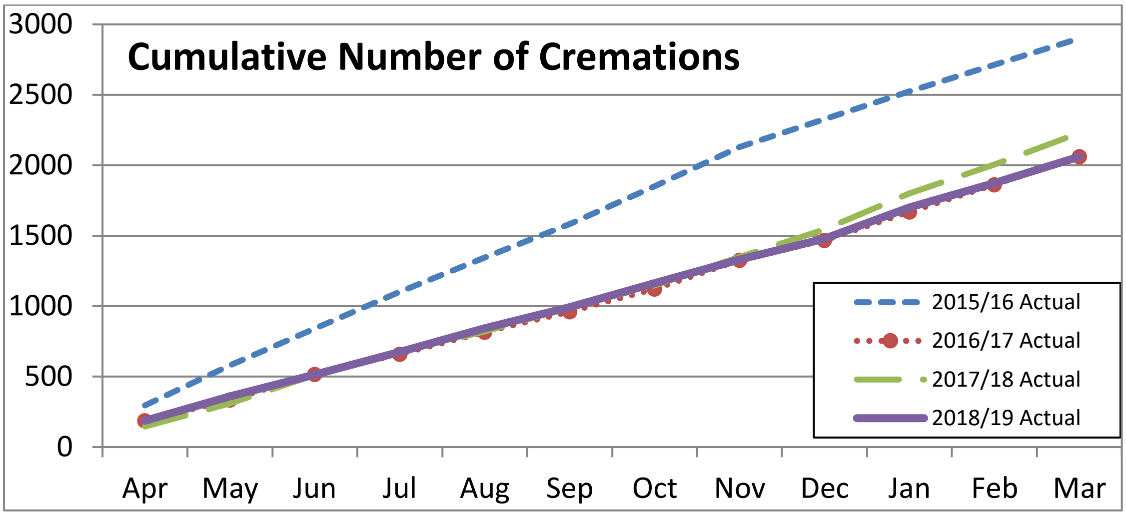


4.4.13 The overall amount of waste collected from household and operations across the borough has shown a 9% decrease compared to 2017/18. This decrease reflects the beneficial impact of the measures implemented at the Household Waste Recycling Centre from July 2017 to tackle illegal usage of the site and the introduction of alternate weekly waste collections at the end of August 2018. Encouragingly, following the implementation of alternate weekly waste collections, home kerbside recycling has increased as residents are changing their behaviour and considering how to best dispose of their household waste. It is anticipated that home recycling performance will show further improvement as the free garden waste scheme is extended to newly built homes throughout 2019.

Local Environmental Services

4.4.14 Local Environmental Services has shown an underspend of £0.043m against budget. The main variances relate to an underspend of £0.138m in Grounds Maintenance, increased income from Sea-Front Properties of £0.035m offset by a shortfall in Bereavement income mainly due to a drop in income from cremations and burials compared to previous years and some additional staff costs, due to sickness.

4.4.15 **Chart 8: Annual Number of Cremations (2015/16 to 2018/19)**



4.4.16 For 2018/19 the income generated by cremations and burials reflected the lowest numbers for the past four years. This is illustrated in table 8 above, showing the lowest number of cremations with no upturn in winter as experienced previously (note the high levels of cremations in 2015/16 were due to the closure of the crematorium in Blyth following a fire).

4.4.17 Within the Grounds Maintenance area there were savings against budgeted weed-spraying costs, where a fourth spray was not required (£0.048m), the impact of in-sourcing Royal Quays and the burial service (£0.047m), increased income across the service and reduced transport, repair and maintenance costs.

Street Lighting PFI

4.4.18 The street-lighting PFI break-even position resulted from a pressure due to increased energy costs being mitigated by a draw-down from the PFI reserve of £0.396m.

Consumer Protection & Building Control

4.4.19 This Service area includes taxi licencing where there is a £0.122m income shortfall, which has worsened since the previously reported position of £0.096m, due to changing business patterns and requirements in neighbouring authorities.

4.5 Business & Economic Development

4.5.1 This Service has ended the year with a pressure of £0.385m as shown in table 11 below. The pressure relates to business unit rental and berthing fees at the Swan site. The service is proactively marketing all available business unit space with a view to securing additional tenants in 2019/20.

4.5.2 **Table 11: Outturn Variation Business and Economic Development**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Regeneration	0.390	0.808	0.418	0.372
Business & Enterprise	0.787	0.768	(0.019)	0.009
Resources & Performance	0.028	0.014	(0.014)	(0.013)
Total Business & Economic Development	**1.205**	**1.590**	**0.385**	**0.368**

4.6 Commercial & Business Redesign

4.6.1 This Service ended the year with a pressure of £1.189m (January, £0.779m) as shown in table 12 below. The movement in this position is largely due to a realignment of ENGIE contract costs (£0.292m) with related reductions in costs being seen predominantly within Finance. The year has seen an underlying pressure within staffing associated with transformation projects of £0.369m. The Service continues to actively review the staffing structure in line with the priorities of the Council's change programme with a view to identifying savings in 2019/20. There is also a pressure relating to non-pay costs associated with the Customer Journey work streams relating to the Outsystems IT application and services provided by ENGIE. Within ICT, there are historical pressures relating to costs of systems not included within the original ICT contract with Engie. Following the implementation of the senior structure agreed by Cabinet last October, Commercial & Business Redesign will cease to exist in 2019/20.

4.6.2 **Table 12: Outturn Variation Commercial and Business Redesign**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Head of Commercial & Business Redesign	(0.184)	0.636	0.820	0.722
ICT	1.617	1.986	0.369	0.057
Total Commercial and Business Redesign	**1.433**	**2.622**	**1.189**	**0.779**

4.7 Corporate Strategy

4.7.1 Corporate Strategy has ended the year with a pressure of £0.241m as set out in table 13 below (January, £0.164m). There was a pressure in staffing throughout the year where resources were in place to support the organisation through the changes arising from the implementation of the Efficiency programme.

4.7.2 **Table 13: Outturn Variation Corporate Strategy**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Corporate Strategy Management	0.078	0.110	0.032	0.019
Policy, Performance & Research	(0.172)	(0.025)	0.147	0.097
Marketing	0.122	0.173	0.051	0.055
Elected Mayor and Executive Support	(0.005)	0.008	0.013	0.002
Children's Participation & Advocacy	0.179	0.178	(0.001)	(0.009)
Total Corporate Strategy	**0.202**	**0.444**	**0.242**	**0.164**

4.8 Finance including Revenues & Benefits and Customer Services

4.8.1 The overall position is an underspend of £0.293m in the Finance Service (January, overspend of £0.451m) as set out in table 14 below. The improvement has resulted mainly from a realignment of ENGIE contract costs to other service areas in line with delivery of the contract and an improvement in Revenues and Benefits due to a better than anticipated subsidy position and a reduced bad debt provision. A prudent assessment of the impact of the move to Universal Credit on the Benefits position has been taken through the year and we will continue to monitor closely the impact that residents moving to Universal Credit in North Tyneside is having on the Benefit Subsidy Claim and Housing Benefit Overpayment income reduction as we move into 2019/20.

4.8.2 **Table 14: Outturn Variation Finance**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Finance Service	(0.441)	(0.772)	(0.331)	0.000
Internal Audit	(0.038)	(0.087)	(0.049)	(0.002)
Revenue & Benefits and Customer Services	(0.166)	(0.079)	0.087	0.453
Total Finance	**(0.645)**	**(0.938)**	**(0.293)**	**0.451**

4.9 Human Resources & Organisational Development

4.9.1 The outturn pressure of £0.021m compares to the January forecast of £0.065m. The movement in the position is due mainly to additional income of £0.025m from the North East Combined Authority (NECA) for HR support and employer incentive payments re the Apprentice Levy of £0.011m received in March with the balance relating to supplies and services savings. The remaining pressure results from a savings target which was applied to budgets for staff which, having originally transferred out to the Authority's business partner, were subsequently transferred back in.

4.9.2 **Table 15: Outturn Variance Human Resources and Organisational Development**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Human Resources & Organisational Development	(0.130)	(0.109)	0.021	0.065

4.10 Law & Governance

4.10.1 Law & Governance has ended the year with a pressure of £0.331m compared to the January forecast of £0.296m. The movement since the last report relates to increased barristers fees and higher than forecasted running costs within the Coroner's Service. The pressure predominantly relates to staffing within the service which, earlier in the year, was forced to incur high costs for locum staff. This has been resolved by successful recruitment. However, Members will recall in January an increased staffing cost within the Coroner's Service was reported.

4.10.2 **Table 16: Outturn Variation Law and Governance**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Customer, Governance & Registration	(0.074)	(0.021)	0.053	0.057
Democratic & Electoral Services	(0.075)	(0.065)	0.010	0.002
Information Governance	(0.047)	(0.007)	0.040	0.057
Legal Services	(0.207)	(0.098)	0.109	0.077
North Tyneside Coroner	0.293	0.412	0.119	0.103
Total Law and Governance	**(0.110)**	**0.221**	**0.331**	**0.296**

4.11 Central Budgets & Contingencies

4.11.1 The 2018/19 forecast outturn set out in Table 17 below reflects an underspend of £8.685m on central budgets (January, underspend of £7.616m).

4.11.2 **Table 17: Outturn Variation Central Budgets and Contingencies**

	Budget £m	Outturn £m	Outturn Variance £m	Variance Jan £m
Corporate & Democratic Core	9.546	9.287	(0.259)	(0.175)
Other Central Items	0.789	(7.637)	(8.426)	(7.441)
Total Central Items	**10.335**	**1.650**	**(8.685)**	**(7.616)**

4.11.3 The forecast underspend in Corporate and Democratic Core relates to savings against Pensions out of Revenue of £0.203m (improved from an underspend of £0.100m in the January report) and Corporate and Democratic Core recharges to the Housing Revenue Account (HRA) from the General Fund of £0.075m offset by £0.019m of miscellaneous expenditure.

4.11.4 The improvement of £0.985m in Other Central Items relates mainly to an improvement in Section 31 Grant of £0.722m due to additional Central Government compensation for increased reliefs and further interest savings of £0.262m in the final period leading up to year-end.

4.11.5 The items making up the overall surplus position of £8.426m within Other Central Items includes the total value of interest savings for 2018/19 of £3.412m, which has been saved, as a result of a detailed review of the level of internal borrowing and temporary borrowing to be maintained over the course of the year and reprogramming within the Investment Plan and an amount of £0.369m for minimum revenue provision as reported in January.

4.11.6 There is £0.204m of additional income relating to recharges to services for costs of borrowing to finance investment in new vehicles and other assets being higher than originally planned. There is £0.726m of additional income relating to North Tyneside's share of the Levy Account Surplus allocation announced as part of the Provisional Finance Settlement by Central Government on 13 December 2018. As part of the budget setting process for 2018/19 contingency budgets were created and held corporately for demand pressures within Adult Services (£1.800m) and Children's Services (£2.616m). The demand pressures are shown within the HECS service and the Central budget within Other Central Items is shown as underspent to offset this pressure. This will continue to be monitored in 2019/20 and any proposed permanent allocation of contingency would be reported to Cabinet for their express decision. In addition, there is an amount of £0.551m relating to business rates refunds mainly for Segedunum, £0.977m additional Section 31 Grant and £0.250m dividend from the Kier JV.

4.11.7 From November monitoring, the £0.400m of additional income from VAT changes within Sport and Leisure has been shown centrally rather than within the service.

4.11.8 These underspends are partially offset by pressures relating to 2018/19 savings targets totalling £2.379m (See Section 2.6 to 2.8) and the £0.500m forecast pressure relating to the 2017/18 procurement saving. Further areas of savings within Procurement continue to be investigated in 2019/20 and further management savings are also expected to be identified in the new year as the review of leadership within each service area continues.

4.12 New Revenue Grants

4.12.1 The following revenue grants have been received or notified during February and March 2019.

Service	Grant Provider	Grant	Purpose	2018/19 value £m
Environment Housing and Leisure	Department of Health	New Tobacco Burdens	Supports implementation of the new Tobacco Products Directive and Age of Sale – Nicotine Inhaling Products Legislation	0.003
Commissioning and Asset Management	Education and Skills Funding Agency	Year 7 Catch Up Premium Allocations	For the educational benefit of children who do not meet level 4 in Key Stage 2 in reading or mathematics	0.132
Commissioning and Asset Management	Education and Skills Finding Agency	Free School Meals Supplementary Grant	To provide schools with additional funding resulting from changed thresholds for free school meals as a result of universal credit	0.201
Environment Housing and Leisure	Ministry of Housing, Communities and Local Government	National Community Clean Up Campaign	To support efforts in cleaning up local communities	0.036
Environment Housing and Leisure	Ministry of Housing, Communities and Local Government	Local Authority Parks Improvement Funding	To give local leaders and their communities resources to better maintain, protect and increase their recreational spaces	0.037
Health, Education, Care and Safeguarding	Police and Crime Commissioner for Northumberland	Early Intervention Youth Fund	To provide purposeful intervention to young people who are identified on the periphery of becoming involved in serious or violent crime	0.002
Total				**0.411**

SECTION 5 - SCHOOLS FINANCE

Schools Balances in 2018/19

5.1 Schools have concluded their 2018/19 accounts closure exercise in line with the local Scheme For Financing Schools and the Authority's year-end timetable. Collective school balances in North Tyneside maintained schools reduced from a surplus of £3.357m at the start of the year to a surplus of £1.599m. This position is significantly better than the forecast at the start of the year when the outturn was expected to be an overall deficit of £4.716m. The most recent set of monitoring performed with schools during the year and completed in early February 2019 showed an overall forecast deficit balance of £3.224m. The final balance position for schools is reported in the Authority's statutory accounts and is before any commitments are taken into account. Table 18 below shows balances analysed by phase.

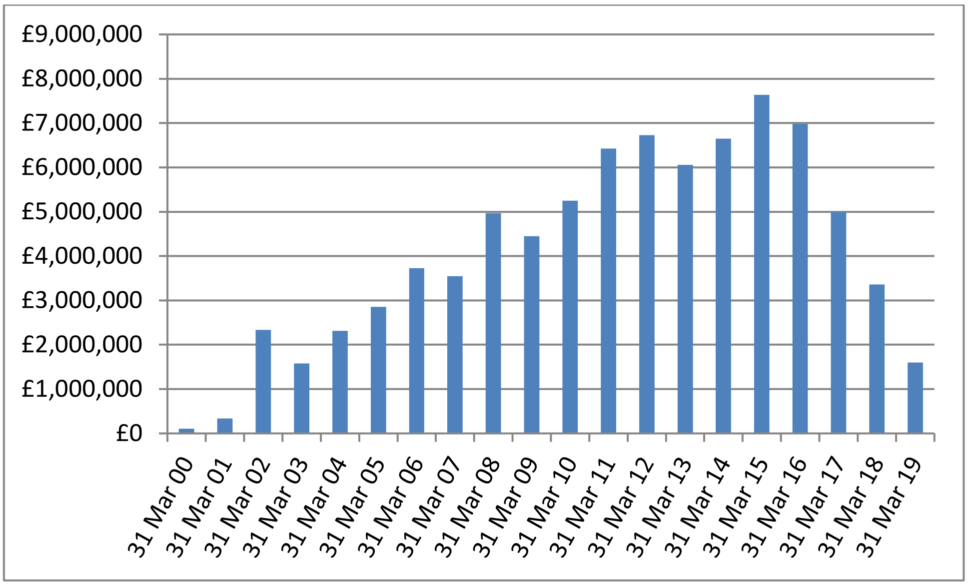
5.2 **Table 18: Total School balance position against plan Surplus/ (Deficit) - committed and uncommitted**

Phase	Outturn 2017/18 £m	Budget Plan 2018/19 £m	Monitoring 2 2018/19 £m	Provisional Outturn 2018/19 £m	Movement in balances between 2018/19 and 2017/18 £m
Nursery	0.018	(0.003)	0.002	0.009	(0.009)
Primary	4.299	1.511	1.934	3.789	(0.510)
Secondary	(2.062)	(6.472)	(5.796)	(3.279)	(1.217)
Special/PRU	1.102	0.248	0.636	1.080	(0.022)
Total	**3.357**	**(4.716)**	**(3.224)**	**1.599**	**(1.758)**

5.3 Schools have been reminded of the need to forecast as accurately as possible so that decisions are taken in the light of accurate budget projections. Cabinet will be aware that, under legislation, schools retain a high degree of autonomy when setting budgets unless they are in a deficit position. Therefore, whilst Elected Members and officers are able to advise schools on the adequacy of balances, they cannot intervene.

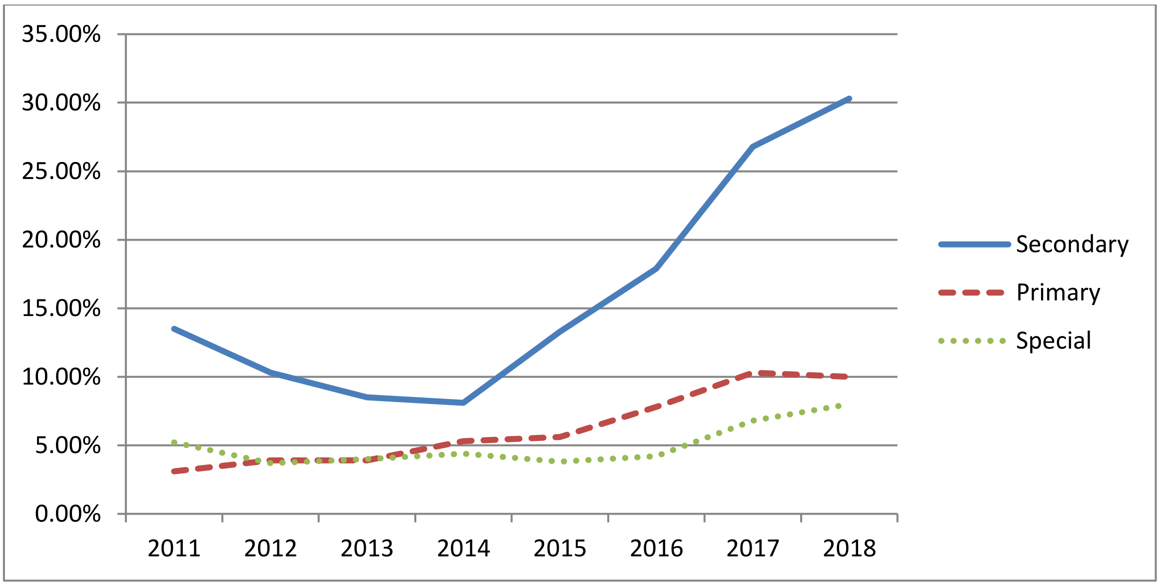
5.4 Cabinet will be aware that the Authority has been working with schools for a number of years with regard to the long-term strategic issue of surplus secondary places and the associated financial pressures which continue to be compounded by rising employment costs. As anticipated, 2018/19 is the fourth year of balances decreasing following a long term trend of rising balances in North Tyneside and chart 9 below sets out the long term trend.

5.5 **Chart 9: Long Term Trend in School Balances within North Tyneside**



5.6 Adequacy of school funding continues to be a high profile issue nationally and the position of school balances provides a useful barometer of the health of school finances. The latest picture nationally available, based on 2017/18 information, shows the proportion of schools in deficit has increased and that secondary schools are more likely to be in deficit compared to primary schools or special schools. In 2017/18, almost a third of secondary schools were in deficit (30.2%) compared with 8.1% of primary schools and 10.1% of special schools.

5.7 **Chart 10: The Percentage of Maintained Schools in Deficit in 2011 to 2018 Analysed by Phase**



School Deficits

5.8 As well as school balances reducing overall, some individual schools continue to face significant financial challenges. During the year, the Authority and Schools Forum paid particular attention to those schools with approved deficits.

5.9 There were nine schools with approved deficits in 2018/19. Schools Forum and senior officers worked closely with these schools during the year which contributed to an improved outturn of £7.256m compared to the approved deficit budgets planned totalling £8.485m. Two schools, Monkseaton Middle School and Whitley Bay High School, ended the year in a surplus position. The progress of individual schools is outlined in table 19 below;

5.10 **Table 19: Provisional Outturn – Schools in deficit**

School	Deficit Approval 2018/19 £m	Provisional Outturn £m	Improvement £m
Backworth Park Primary	(0.091)	(0.013)	0.078
Ivy Road Primary	(0.278)	(0.223)	0.055
Percy Main Primary	(0.086)	(0.055)	0.031
Monkseaton Middle	(0.088)	0.029	0.117
Marden High	(0.646)	(0.533)	0.113
Norham High	(1.549)	(1.462)	0.087
Longbenton High	(1.702)	(1.544)	0.158
Monkseaton High	(3.652)	(3.485)	0.167
Whitley Bay High	(0.393)	0.030	0.423
Total	**(8.485)**	**(7.256)**	**1.229**

5.11 Cabinet should note that of the nine schools in deficit, six schools are expected to remain in deficit for 2019/20. Deficit challenge sessions have been planned with these schools in May/June 2019. There are up to eight schools expected to request deficit approval in 2019/20 as schools finalise and submit their three year budget plans for 2019/20 by the deadline of 31 May 2019. Initial deficit challenge session for these schools are planned to take place in June 2019. Full details of deficit approval applications will be reported to Members as part of the first Financial Management report of 2019/20.

5.12 In 2018/19, Schools Forum agreed to delegate an amount of £0.131m for schools in financial difficulty often referred to as 'headroom' funding. Schools Forum agreed to offset the costs of the Schools Procurement Officer of £0.010m against this fund. Schools Forum also agreed to centrally retain a sum of £0.250m to support schools with falling rolls. A sub group of Schools Forum met during 2018/19 to develop a recommendation for Schools Forum for the allocation of these funds. As this agreement was outstanding at 31 March 2019, these amounts have been carried forward into 2019/20 for allocation in that year. In addition to the 2018/19 centrally retained and de-delegated sums, an amount of £0.432m carried forward from 2017/18 (net of repayments of funding back to academies during the year) is also carried forward into 2019/20 as summarised in table 20 below;

5.13 **Table 20: Centrally retained and de-delegated funds to support schools in Financial Difficulty**

	£m
Carried forward from 2017/18	0.467
Less repayments to academies	(0.035)
Falling rolls funding 2018/19	0.250
Headroom funding 2018/19	0.131
Procurement Officer costs	(0.010)
Carried forward into 2019/20	**0.803**

5.14 As in previous years, the details of schools balances will be reported to the Department for Education (DfE) through the Consistent Financial Reporting (CFR) return. This return will be co-ordinated by the Local Authority and will be submitted by the deadline in July 2019. The CFR is then used to populate parts of the s251 Outturn return which will be submitted to the DfE by the end of August 2019 for verification in September. Full details of each individual school's balance will then be reported to Cabinet.

5.15 Cabinet will recall that a programme of work is in progress with schools to consider further actions required to address the longer term approach to financial planning in North Tyneside. The programme is focussing on three new work streams and is also consolidating work on two existing projects. The work streams are:-

- Financial review and analysis;
- Planning and modelling;
- Tools for schools;
- Keeping Children and Young People in school; and
- Closing the Gap.

5.16 As previously reported to Cabinet, improved solutions for school financial management have been explored with a new four year funding forecasting tool made available during 2018/19. The provision of a new five year budget planning and monitoring tool is being explored.

5.17 Consultation with all schools on revisions to the Scheme For Financing Schools was completed and the changes were formally approved by Schools Forum on 24 April 2019. The changes reduce the required time period to pack back a deficit balance from five years to three years and apply to new deficits from 2019/20. A new support and challenge framework for schools in financial difficulty has been developed which further clarifies the deficit approval process and the respective responsibilities of schools and the Local Authority. The framework also introduces earlier intervention and support for schools forecasting a deficit in future years. Further work has been on-going to review curriculum planning in specific schools with a view to identifying further achievable savings. A refresh of the 'rich picture' in relation to schools pupil projections is underway and will be completed in Summer 2019. This will further enhance understanding of the impact of the pattern of required school places around the Borough on current and future school balances.

2018/19 Dedicated Schools Grant (DSG) Outturn

5.18 Overall and after allowing school allocations, the DSG in 2018/19 of £133.593m (after removing academy funding) is showing a net surplus balance of £0.742m. This compares to a surplus of £0.120m in 2017/18. The DfE have introduced a requirement for 2018/19 for any authority with a deficit of greater than 1% of the overall DSG value to prepare and submit a recovery plan by 30 June 2019. North Tyneside Council will not be required to provide such a plan.

5.19 Within the individual blocks, the balance on the High Needs Block is an overspend of £0.920m. This is offset by an underspend of £0.881m on the Early Years Block and an underspend of £0.781m on centrally retained and de-delegated items notably the headroom and falling roles funding referred to in section 4.13 above. As the DSG is a ringfenced account, any balance is carried forward into the next financial year.

High Needs Block

5.20 Cabinet will recall that the High Needs block outturn in 2017/18 was a pressure of £0.430m. This pressure has continued in 2018/19 in line with national trends. In recognition of the nationwide issue of increasing demand within special educational needs, in December 2018, the Government announced additional funding for High Needs in 2018/19 and 2019/20. The additional funding amounts to £0.426m for North Tyneside Council in each of the two years. This funding was built into forecasts in 2018/19 and reported pressure in January was £0.604m. The provisional outturn however has worsened to £0.920m (including the carried forward balance from 2017/18) mainly due to additional costs within out of borough education placements of £0.252m and additionally resourced provisions and special school places of £0.064m. Cabinet should note that the High Needs block forms part of the Dedicated Schools Grant (DSG) which is ringfenced and does not form part of the General Fund.

5.21 This overall pressure in the High Needs Block is in line with the national and regional picture and results from additional places required in special schools, out of Borough placements and in relation to top up payments as outlined in table 21 below;

5.22 **Table 21: Breakdown of High Needs Pressures at March 2019**

Provision	Budget £m	Provisional Outturn Variance £m	Comment
Special schools and PRU	10.746	0.218	Pressure on places for children with profound, Multiple Learning Difficulties, Social Emotional and Mental Health problems and Autism Spectrum Disorder
ARPs/Top ups	3.145	0.296	Pressures in pre 16 top ups e.g. Norham ARP
Out of Borough	0.997	0.402	Additional costs of our most complex children currently not able to be supported in the Borough
Commissioned services	3.977	0.000	
Additional Funding announced in December 2018	0.000	(0.426)	
Subtotal	**18.865**	**0.490**	
2017/18 b/fwd balance		0.430	
Cumulative Outturn		**0.920**	

5.23 Transfers have been made to the High Needs Block from the Schools Block in previous years. Department for Education guidelines state that Schools Forum can approve a transfer of up to 0.5% of the School Block. The Authority requested and was granted approval for a transfer of 0.25% of the block value amounting to £0.302m at the Schools Forum meeting on 14 January 2019.

Managing the High Needs Block

5.24 Work continues to manage expenditure within the High Needs Block. A review of Additionally Resourced Places (APRs) and commissioned services is in progress with initial findings reported findings in April and May 2019 respectively. The Authority is working through the findings and recommendations with stakeholders to agree the next steps to delivering improvements and identifying efficiencies.

5.25 Sufficiency planning is being strengthened to better align the availability of special school places in North Tyneside with needs, in light of the increase in children with Social Emotional and Mental Health (SEMH) needs, Autism Spectrum Disorder (ASD) and Profound and Multiple Learning Difficulties (PMLD) and to reduce the requirement for more expensive out of borough placements.

5.26 A comprehensive special educational needs review is also underway which is examining all processes associated with Education Health and Care Plans

(EHCPs). This has resulted in action to increase efficiency, strengthen gatekeeping and improve partnership working across education, health and social care. The review is looking at the statutory assessment process, quality assurance arrangements, decision making panels and tribunal outcomes.

Early Years Block

5.27 The Early Years Block has ended the year with a cumulative surplus of £0.881m. This included a brought forward deficit of £0.020m from 2017/18. An adjustment to funding takes place each May/June when the DfE reviews funding estimates based on the January pupil census prior to the financial year in relation to the numbers of pupils actually taking places. The Authority is anticipating a clawback of funding as a result of this review.

SECTION 6 - HOUSING REVENUE ACCOUNT

Outturn Position

6.1 The HRA is showing an underspend of £3.191m against budget in-year, with a further £1.443m improvement against budgeted brought forward balances. The overall position is shown in table 22 below and shows a position that has improved steadily throughout the year. Rental income showed continued improvement against budget as the number of empty homes continues to out-perform business plan assumptions (£0.668m). In addition income from temporary dispersed accommodation came in above budget as anticipated all year (£0.080m); whilst service charge income, including furniture packs also maintained the positive trend to year-end coming in well above budget (£0.431m) with garage rents coming in slightly better than budget (£0.005m).

6.2 There is a significant forecast underspend of £1.817m in the position for HRA Management Costs, which is down to a number of factors a significant one being the progress of the Construction Options Project (COP), which saw the TUPE transfer of the majority of staff involved in the Kier North Tyneside (Kier NT) Joint Venture back to the Council from 1 April 2019 (£0.946m). The savings in the COP budget related to the following principal areas:

- £0.399m for materials, the majority of this budget was created to fund the purchase of the stock held by Kier NT at point of transfer or to purchase new materials;
- £0.300m due to savings against assumed interest costs for vehicle purchases no longer required as a result of the Steering Group's decision to purchase the new fleet using a contribution from the North Tyneside Living PFI reserve surplus; and
- £0.244m savings in training, staffing, equipment and consultancy costs due to timings around appointments and development of the project requirements.

The remaining HRA Management Cost underspend reflects a number of other variations; vacancy savings (£0.168m), increased Water Rate Commission and a surplus on the water rates reconciliation (£0.359m), reduced costs relating to utilities in the sheltered PFI schemes (£0.117m), reduced pension strain on the fund costs (£0.075m), reduced Empty Homes Council Tax payments linked to reducing numbers of Empty Homes (£0.129m) and prior year credits, plus a range of other smaller variations resulting in total savings of £0.023m.

6.3 The increasing rate of take-up of Universal Credit has seen an increasing impact on the in-year bad debt provision requirement and despite previously predicting an underspend the outturn position was an overspend (£0.124m). In addition, the HRA general contingency provision will not be required resulting in a saving of £0.150m and the Transitional Protection fund used to maintain PFI tenants rents at pre PFI levels continued to trend under budget resulting in a saving of £0.017m.

6.4 All of the £0.858m of savings identified in the 2018/19 budget approved by Cabinet were delivered in full.

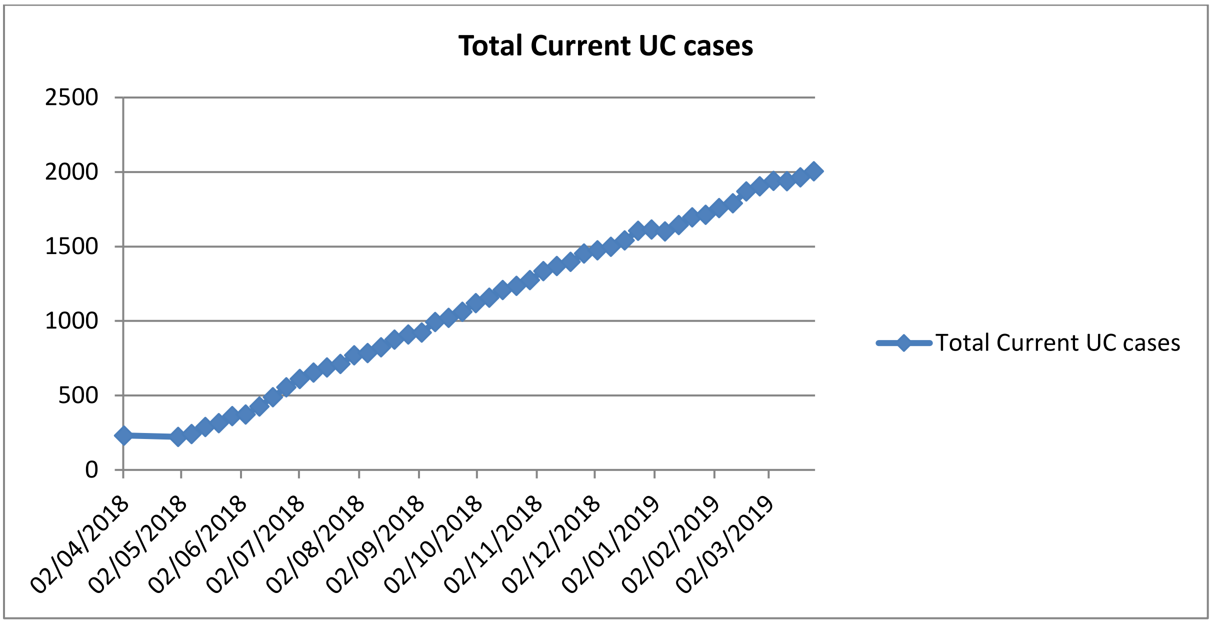
6.5 **Table 22: Forecast Variance Housing Revenue Account**

	FULL YEAR - 2018/19			
		Outturn		
	Full Year Budget £m	Actual £m	Outturn Variance £m	Jan 2019 Variance £m
INCOME				
Rental Income	(58.960)	(60.145)	(1.185)	(1.238)
Other Rental Income - Shops & Offices etc.	(0.260)	(0.353)	(0.093)	(0.025)
Interest on Balances	(0.030)	(0.054)	(0.024)	(0.020)
PFI Credits	(7.693)	(7.693)	0.000	0.000
	(66.943)	**(68.245)**	**(1.302)**	**(1.283)**
EXPENDITURE				
Capital Charges - Net Effect	12.093	12.066	(0.027)	(0.018)
HRA Management Costs	12.338	10.521	(1.817)	(1.098)
PFI Contract Costs	9.597	9.597	0.000	0.000
Repairs	11.478	11.476	(0.002)	(0.010)
Revenue Support to Capital Programme	9.570	9.053	(0.517)	0.000
Contribution to Major Repairs Reserve – Depreciation	11.972	12.489	0.517	0.000
Contingencies, Bad debt Provision & Transitional Protection Payments	1.010	0.967	(0.043)	(0.104)
Pension Fund Deficit Funding	0.855	0.855	0.000	0.000
	68.913	**67.024**	**(1.889)**	**(1.230)**
	1.970	**(1.221)**	**(3.191)**	**(2.513)**
BALANCES BROUGHT FORWARD	**(4.640)**	**(6.083)**	**(1.443)**	**(1.443)**
BALANCES TO CARRY FORWARD	**(2.670)**	**(7.304)**	**(4.634)**	**(3.956)**

Universal Credit

6.6 Universal Credit (UC) was fully implemented across North Tyneside on 2 May 2018. The Authority continues to work with residents to provide ICT support to help them make applications and to provide personalised budget support to help residents manage their household finances. A team is working proactively with tenants to minimise arrears, and this was closely monitored as the year progressed to identify any adverse impacts on the budget position. For the first time in the last 15 years the was a pressure on the Bad Debt Provision in 2018/19, which is an indication of the impact this change is having on levels of arrears. There are currently around 40 tenants per week moving onto UC. At the 1 April 2018 there were 232 North Tyneside Homes tenants on UC with arrears totalling £121,599, by the 31 March 2019 this number had increased to 2,005 with related arrears of £1,163,093. Chart 11 below illustrates the change in numbers of UC cases during the last year.

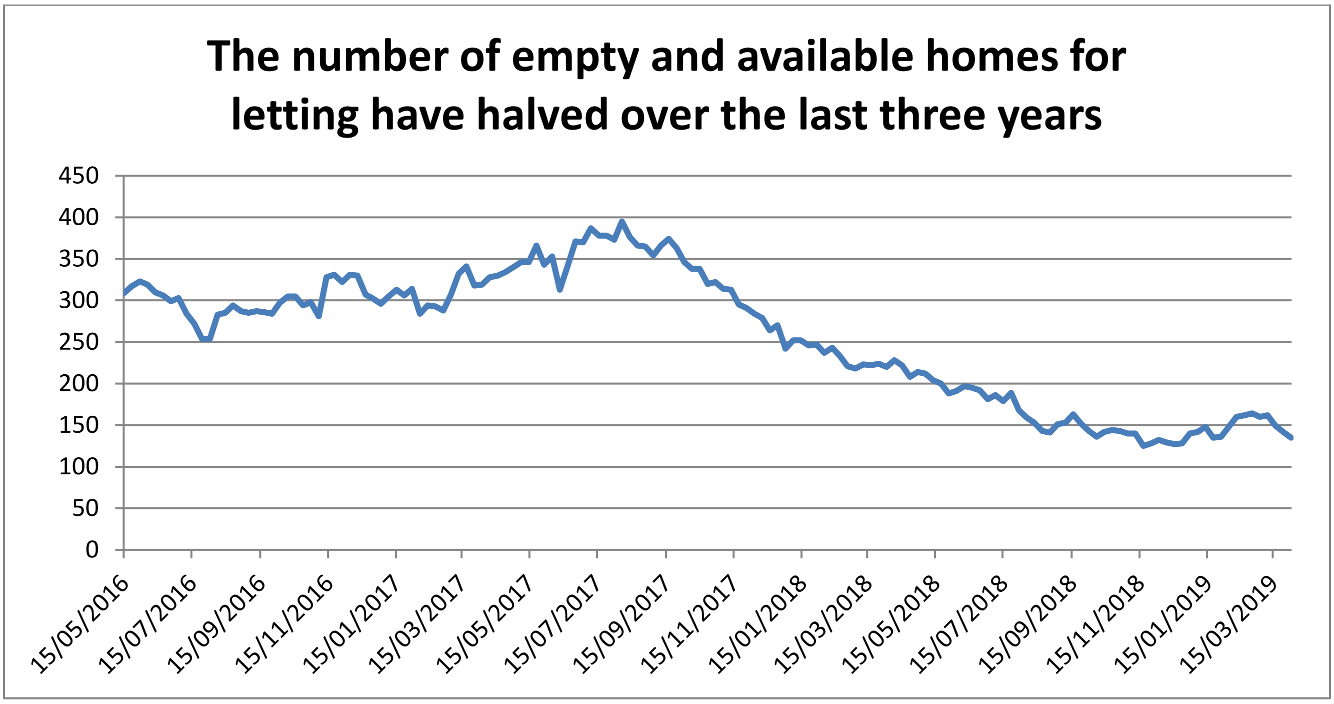
Chart 11: Universal Credit Cases



Empty Homes

6.7 In terms of the impact of empty homes on the financial picture to date, rates during 2018/19 continued to trend below 2017/18 levels and this positive performance continues the trend over the last couple of years following the completion of the North Tyneside Living Schemes. As a result, income forecasts again exceeded budget projections, as there was a positive impact on both rental income and service charges attached to the increased level of occupancy. Chart 12 below illustrates the movement in levels of empty homes over the last three years from 2017/18 through to the end of 2018/19.

6.8 **Chart 12: Number of Empty Homes vacant and available for letting**



Right to Buy (RTB) Trends

6.9 The impact of RTB is critical to long-term planning for the HRA. Prior to the introduction of self-financing in 2012, average RTB sales had dropped to around 25 per annum, mainly due to the capped discount (£22,000) which had remained static as property values had increased, making RTB less financially attractive to tenants. Shortly after self-financing began, Central Government announced a change to RTB significantly increasing the maximum discount, initially to £75,000 and then subsequently annual inflation was added to the maximum. Table 23 below shows the trend in RTB sales since that time, and the financial impact this has had on income for the HRA.

6.10 **Table 23: RTB Trends and Financial Impact**

	Sales assumed by self-financing	Actual RTB Sales	Additional RTB Sales above Budget assumptions	Estimated lost rent per annum (£m)	Capital Receipts (£m)
2012-13	**40**	**85**	**45**	**0.315**	**3.477**
2013-14	**47**	**122**	**75**	**0.457**	**4.957**
2014-15	**53**	**100**	**47**	**0.397**	**3.938**
2015-16	**55**	**135**	**80**	**0.577**	**5.548**
2016-17	**55**	**136**	**81**	**0.557**	**5.632**
2017-18	**56**	**158**	**102**	**0.630**	**7.758**
2018-19	**56**	**135**	**79**	**0.538**	**6.533**
	362	**871**	**509**	**3.471**	**37.843**

6.11 In the period (2012-2019), the Authority has built over 130 new homes through the HRA, which has helped mitigate a portion of the revenue loss from the 871 sales in the same period. However, the cumulative impact on HRA annual rental income from RTB over this period is in excess of £3m.

SECTION 7 - INVESTMENT PLAN

7.1 The Investment Plan represents the Authority's capital investment programme in projects across all service areas, including General Fund and HRA activities.

7.2 All capital investment follows a structured gateway process, and is challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. Delivery of the Investment Plan year by year, through both physical on site development and capital spend, is key to the successful attainment of the Authority's objectives.

2018/19 Capital Expenditure

7.3 The initial 2018/19 Investment Plan budget was £84.059m (£56.145m General Fund and £27.914m Housing). Further variations to the Plan and reprogramming were agreed by Cabinet during the year as part of the Financial Monitoring process to give an approved plan at the year-end of £77.962m***** (£47.760m General Fund and £30.202m Housing). Table 24 below summarises these changes.

* Please note the budget figure shown in the 2018/19 Financial Management report to 31 January 2019 and annex showed an incorrect figure for the 2018/19 (£78.102m) plan the correct figure (£77.962m) was shown in the appendix to the report.

Table 24: 2017/18 Investment Plan – Summary of changes to budget

	£m
Investment Plan approved by full Council – 15 February 18	84.059
Reprogramming from 2017/18	8.500
Reprogramming to 2019/20 and future years	(27.339)
Other variations (net)	12.742
Revised Investment Plan approved by Cabinet – 1 April 2019 *	**77.962**

7.4 Actual capital expenditure in 2018/19 totalled £69.359m (£76.687m in 2017/18), comprising General Fund expenditure of £41.708m and £27.651m on Housing Schemes.

7.5 Not all of the expenditure relates to the creation or improvement of fixed assets for the Authority. £6.139m relates to spend on other items, with £2.179m for share capital, £1.784m on loans, £1.285m spent on Disabled Facilities Grants and £0.844m grants for Clean Bus technology.

7.6 Table 25 below compares the actual capital expenditure with the revised budget for the year, as well as the actual spend for 2017/18.

Table 25: Comparison of Capital Expenditure to Revised budget for 2018/19

Actual Capital Expenditure 2017/18 £m		Revised Capital budget 2018/19 £m	Actual Capital Expenditure 2018/19 £m	Variation from budget over / (under) £m
53.156	General Fund	47.760	41.708	(6.052)
23.531	Housing	30.202	27.651	(2.551)
76.687	**Total**	**77.962**	**69.359**	**(8.603)**

7.7 Included within the appendices is further information on the Investment Plan and activities in the year. **Appendix B** shows the final expenditure, and how that expenditure was financed, with **Appendix C** showing a comparison of expenditure against budget for each individual project. The reasons for these variations have been analysed as reprogramming and other variations.

7.8 Across all capital projects, further reprogramming of £8.484m has been identified and it is requested that Cabinet approve the carry forward of this amount into the 2019/20 Investment Plan. A detailed breakdown of this amount is included in **Appendix C**.

7.9 The major achievements delivered as part of the capital investment programme in 2018/19 include:

(a) Completion of projects including the Spanish City Dome, Lower Central Promenade reconstruction, the new Backworth Park Primary School, highway improvement works including A1058 Coast Road phase 3 (Norham Road bridge), Forest Hall regeneration, junction improvements to the North Bank of the Tyne employment corridor, energy efficient LED Streetlighting installed in over 7 thousand columns, various works to housing stock (kitchen and bathroom replacements, heating upgrades, roof replacements, replacement windows and doors), various projects as part of the Asset Planned Maintenance programme (refurbishment of war memorials across the borough, lighting works at Waves, The Parks and the Riverside Centre etc), improvement works to the schools estate (DDA improvements, roof replacements, window renewals, heating improvements, electrical rewires etc.), environmental improvements at Lockey Park, replacement of refuse collection, gritters and grounds maintenance vehicles, surface water management schemes, ICT refresh, purchase of 13 affordable homes, completion of 12 homes for sale at Wallington Court by North Tyneside Trading Company; and

(b) In addition there are a number of projects underway including the Centre for Innovation (CFI) phase 2 at the former Swan Hunter site, operational depot accommodation review, highways works including the A189 Haddricks Mill to West Moor scheme, Cycling routes including the Coast Road cycle route.

Further details can be found in the Investment Programme Board end of year report which will be presented to this Cabinet and is included as a background paper to this report.

Capital Financing

7.10 Local authorities can finance capital expenditure from a variety of sources: grants; external contributions; capital receipts; borrowing; and contributions from revenue. This section of the report considers how the Investment Plan has been financed.

7.11 Under the Prudential System for capital financing, the Authority can decide to borrow to fund capital expenditure, known as prudential (or unsupported) borrowing. There are associated revenue costs (interest and Minimum Revenue Provision (MRP)) which must be met from the Authority's own resources, i.e. funded by Council Tax payers. MRP is a charge included in the Authority's accounts that effectively spreads the cost of capital expenditure over a period that generally equates to the period in which the asset is used. When deciding whether to take out additional borrowing, the Authority must consider whether the investment Plan is affordable, sustainable and prudent.

7.12 When determining how to finance the Authority-funded element of the Investment Plan, the Authority's MRP Policy is used to maximise the effectiveness of borrowing in relation to individual schemes in the Investment Plan. Those schemes with longer asset lives (e.g. major building works) are financed using prudential borrowing, thereby spreading the MRP charges over a longer period, whilst those with shorter asset lives (e.g. equipment) are financed using capital receipts where receipts are available.

7.13 The total capital expenditure of £69.359m has been financed as shown in table 26 below.

Table 26: 2018/19 Capital Financing

	2018/19 Capital Financing £m
Council Contribution	
Prudential (Unsupported) Borrowing – General Fund	20.365
Capital Receipts -General Fund	0
Capital Receipts – HRA	1.737
Direct Revenue Funding - General Fund	0.151
Direct Revenue Funding – HRA	13.425
Major Repairs Allowance	12.489
	48.167
External funding	
Specific Government Grants	12.556
Capital Grants and Contributions	8.636
	21.192
	69.359

7.14 Total Prudential borrowing for the General Fund was £20.365m.

7.15 During the year £1.434m of General Fund capital receipts were generated. £0.334m have been used to repay loans and £1.001m will be carried forward for future years.

7.16 For Housing, capital receipts of £6.782m were received during 2018/19, of which £1.874m were pooled and paid across to central government leaving a balance of £4.908m available for financing. This balance plus the brought forward receipts of £7.013m gave an available balance of £11.921m. Of this £1.737m was used to finance 2018/19 capital spend and £2.934m was set aside to repay debt leaving a balance of £7.251m to be carried forward into 2019/20.

7.17 Table 27 below shows the movement in capital receipts during 2018/19 including receipts received during 2018/19 (identified in paragraphs 6.15 and 6.16 above), receipts brought forward at 1 April 2018, receipts used to finance the 2018/19 Investment Plan, receipts set aside to repay debt and loans, and receipts carried forward at 31 March 2019.

Table 27: Movement in Capital Receipts during 2018/19

	Receipts brought forward 1 April 2018 £m	Net Useable Receipts received £m	Receipts used for financing £m	Receipts set aside for repayment of debt £m	Receipts set aside for repayment of loans £m	Receipts carried forward 31 March 2019 £m
General Fund	0	1.434	0	0	(0.334)	1.100
Housing	7.013	4.909	(1.737)	(2.934)	0	7.251
Total	**7.013**	**6.343**	**(1.737)**	**(2.934)**	**(0.334)**	**8.351**

7.18 The Authority also received £12.556m of funding through specific Government grants. These grants included:

- £3.512m Schools Standards Fund grants;
- £3.829m Local Transport Plan (including Incentive Fund and Potholes grant);
- £0.645m Devolved Formula Capital
- £1.433m Better Care Fund (including Disabled Facilities Grant);
- £1.330m Department for Transport National Productivity Fund (A189 Improvements Haddricks Mill to West Moor); and
- £0.845m Clean Bus Technology Fund.

7.19 Capital Grants and Contributions of £8.636m used in the year included:

- £3.193m North East Local Enterprise Partnership (NELEP) Growth Deal;
- £4.698m Section 106 contributions; and
- £0.605m Heritage Lottery Fund.

7.20 As required, under self-financing for Housing, there is a Major Repairs Allowance calculated and used to finance ongoing works to Council Dwellings. This contribution is financed from within the HRA (i.e. it is self-financed) and so appears as part of the Authority’s contribution shown in Table 26 above.

7.21 An analysis of the overall capital financing is also shown in **Appendix B**.

International Financial Reporting Standards (IFRS) adjustments to Capital Expenditure in 2018/19

7.22 Under IFRS any expenditure incurred relating to PFI schemes and finance leases is classed as capital expenditure and the resulting assets are added to the Authority's balance sheet.

7.23 During 2018/19 spend of £0.360m was incurred under the street lighting PFI contract.

SECTION 8 – ANNUAL TREASURY MANAGEMENT REVIEW AND PRUDENTIAL INDICATORS

8.1.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This section of the report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

8.1.2 During 2018/19 the minimum reporting requirements were that the full Council or Cabinet should receive the following reports:

- an annual treasury strategy in advance of the year (Council 15 February 2018);
- a mid-year (minimum) treasury update report (Cabinet 26 November 2018); and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

8.1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

8.1.4 The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports. Reports are reviewed by Lead Member Briefing before they are reported to Cabinet. Member training on treasury management issues was undertaken during the year on 11 March 2019 in order to support members' scrutiny role.

8.2 Capital Expenditure and Financing

8.2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

8.2.2 The actual capital expenditure forms one of the required prudential indicators. Table 28 below shows the actual capital expenditure and how this was financed. Further details of this are shown in table 26 in section 6 of this report.

Table 28: Actual Capital Expenditure and its Financing

	2017/18 Actual £m	2018/19 Estimate £m	2018/19 Actual £m
General Fund	53.156	52.428	41.708
HRA	23.531	30.202	27.651
Total Capital Expenditure	**76.687**	**82.630**	**69.359**
Financed in-year (grants, contributions and capital receipts)	51.042	59.399	48.994
Unfinanced Capital Expenditure (Prudential borrowing)	25.645	23.231	20.365

8.3 The Council's Overall Borrowing Need

8.3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

8.3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. Table 29 below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 29: Gross Borrowing against CFR

	2017/18 Actual £m	2018/19 Estimate £m	2018/19 Actual £m
CFR General Fund	317.942	326.176	323.907
CFR HRA	335.173	331.604	328.669
Total CFR	**653.115**	**657.780**	**652.576**
Gross borrowing position	582.936	610.971	568.221
Under/over funding	70.179	46.809	84.355

8.3.3 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

8.3.4 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

8.3.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2018/19 £m
Authorised limit	1,280.000
Maximum gross borrowing position during the year	582.936
Operational boundary	700.000
Average gross borrowing position	570.883
Financing costs as a proportion of net revenue stream	14.98%

8.4 Treasury Position as at 31 March 2019

8.4.1 The Authority's treasury position (excluding borrowing by PFI and finance leases) at 31 March 2018 and 31 March 2019 is shown in table 30 below:

Table 30: Treasury Position as at 31 March

Borrowing Position	31 March 2019 Principal £m	Rate/Return %	31 March 2018 Principal £m	Rate/Return %
Fixed Rate Funding:				
-*PWLB long - term	231.250	4.12	195.250	4.58
(HRA-Self Financing)	128.193	3.49	128.193	3.49
-Market **(LOBO's)	20.000	4.35	20.000	4.35
-Temporary	70.703	0.80	117.712	0.72
Total External Debt	**450.146**	3.43	**461.155**	3.28
CFR	**534.283**		**531.303**	
Over (Under) borrowing	**(84.137)**		**(70.148)**	

*Public Works Loan Board **Lender Option Borrower Option

The maturity structure of the external debt portfolio was as follows:

	31 March 2019 Actual £m	31 March 2018 Actual £m
Under 12 months	76.703	142.712
12 months and within 24 months	11.000	6.000
24 months and within 5 years	19.000	16.000
5 years and within 10 years	21.575	20.575
10 years and within 20 years	74.100	59.100
20 years and within 30 years	73.575	78.575
30 years and within 40 years	115.000	115.000
40 years and within 50 years	48.193	23.193
50 years and within 51 years	11.000	10.000

8.5 Investment Portfolio

Treasury investments	Actual 31.3.19 £m	Actual 31.3.18 £m
DMADF (H M Treasury)	12.300	16.400

Non Treasury investments	Actual 31.3.19 £m	Actual 31.3.18 £m
Joint venture	2.650	1.873
Companies	1.869	1.029
TOTAL NON TREASURY INVESTMENTS	**4.519**	**2.902**

8.5.1 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

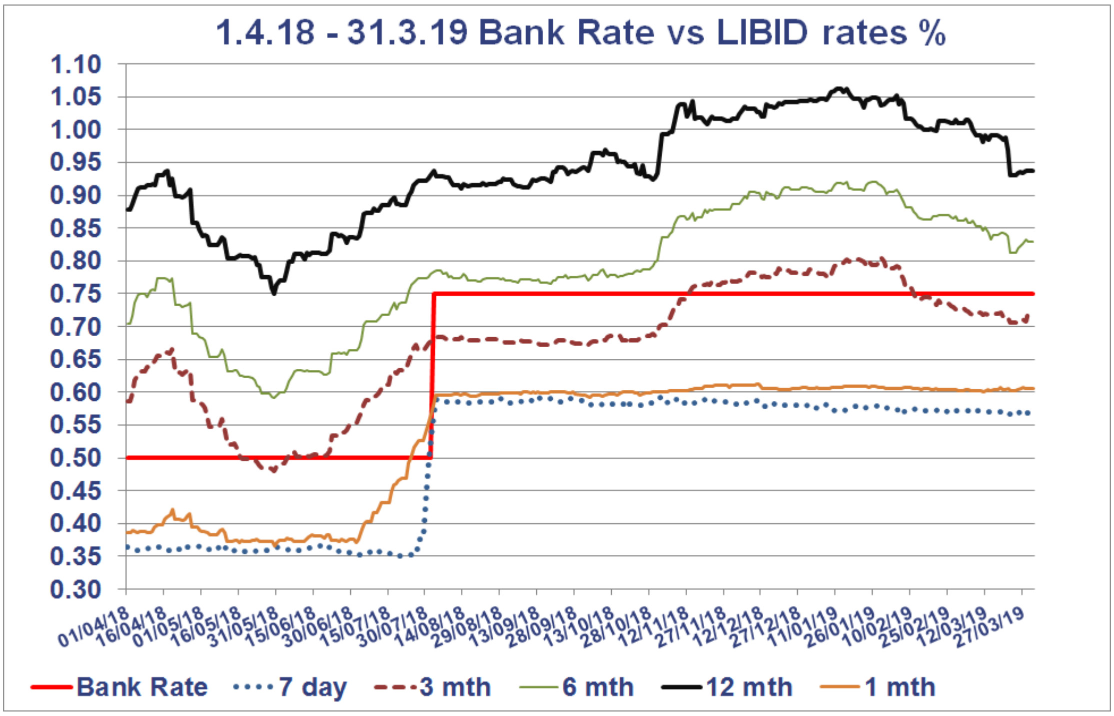
8.5.2 It was not expected that the MPC would raise the Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.

8.5.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

8.5.4 The Authority is not carrying sufficient cash balances to be able to place longer term deposits to earn higher rates. However, when Bank Rate went up in August, its investment returns also improved.

8.5.5 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Chart 13 Investment strategy and control of interest rate risk



8.6 Borrowing strategy and control of interest rate risk

8.6.1 During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

8.6.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost, the difference between (higher) borrowing costs and (lower) investment returns.

8.6.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

8.6.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Resources therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered; and,

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

8.6.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Chart 14: Interest Rate View

Link Asset Services Interest Rate View 2.1.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

8.6.6 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

8.7 Borrowing Outturn for 2017/18

8.7.1 Long-term borrowing was undertaken during the year for the General Fund to fund capital expenditure and maturing debt was £51.000m and is detailed in table 31 below:

Table 31 - Replacement PWLB Loans 2018/19

Principal £m	Interest Rate %	Start Date	Maturity Date
5.000	1.77	15 March 2019	15 September 2025
5.000	2.19	15 March 2019	15 September 2031
5.000	2.25	15 March 2019	15 September 2032
5.000	2.40	15 March 2019	15 September 2035
10.000	2.41	15 March 2019	15 September 2068
11.000	2.41	15 March 2019	15 September 2069
5.000	2.38	21 March 2019	21 March 2066
5.000	2.38	21 March 2019	21 March 2067

This compares with a budget assumption of borrowing at an interest rate of 3% which was set in line with projections from our treasury management advisors.

8.7.2 Internal borrowing and low rate short term borrowing was also undertaken during the year. General Fund short term borrowing outstanding at 31 March 2019 was

£50.000m. The HRA also took advantage of low rate short term borrowing with a balance of £20.486 million outstanding at 31 March 2019.

8.7.3 Maturing long – term loans of £15.000m were repaid in 2018/19 as detailed in Table 31 below:

Table 32 - Maturing Long Term Loans repaid during 2018/19

Principal £m	Interest Rate %	Date Repaid
5.000	10.375	4 August 2018
10.000	2.72	14 December 2018

8.7.4 Short term savings were achieved during the year by internally financing new capital expenditure by running down existing cash balances and replacing maturing debt by taking advantage of borrowing low rate loans from PWLB as detailed in Table 31 above. Lower cash balances also meant lower counterparty risk on the investment portfolio.

8.7.5 No rescheduling of debt was carried out during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8.7.6 **Borrowing in advance of need**
The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.7.7 **Rescheduling**
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8.7.8 **Summary of debt transactions**
Management of the debt portfolio resulted in £3.412m in interest savings.

8.8 Investment Outturn

8.8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by full Council on 15 February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

8.8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.8.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2018 £m	31 March 2019 £m
Balances	10.160	8.403
Earmarked reserves	76.778	68.656
Provisions	3.833	4.374
Usable capital receipts	7.013	8.351
Total	**97.784**	**89.784**

8.8.4 **Investments held by the Council**

- The Council maintained an average balance of £17.842m of internally managed funds invested with the Debt Management Office (DMO);
- The internally managed funds earned an average rate of return of 0.49%; and,
- Total investment income was £0.091m compared to a budget of £0.023m.

8.9 A full list of the Prudential and Treasury Indicators is shown in Appendix D.